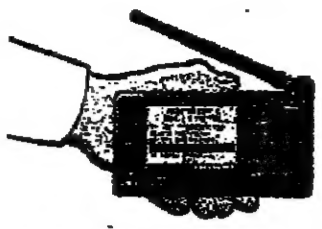
FINANCIAL TIMES

Start the week with...

William Dawkins
Japan's new hand on the tiller
This Week, Page 7



Radio days
Signal change for developing world
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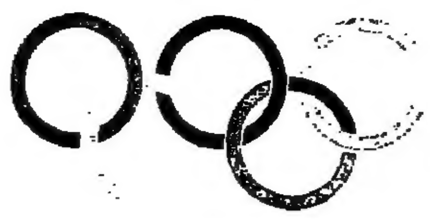


Olympics 2004
Candidate cities tell half the story
Sport, Page 12

World Business Newspaper

MONDAY JANUARY 15 1996

US engineering groups 'produce more than UK rivals'

US precision engineering companies achieve productivity two-thirds higher than their UK competitors but with less skilled workers, according to the UK-based National Institute of Economic and Social Research. An NIESR study published today also suggests US productivity is 25 per cent higher when compared with Dutch competitors. It cites large economies of scale in American plants as the main reason for the sharp productivity gap. Page 16

Chrysler shareholders express concerns: The intentions of dealmaker Kirk Kerkorian, whose privately-owned Tracinda group controls 15 per cent of US car company Chrysler, have emerged as one of the main concerns in talks between Tracinda and Chrysler's biggest shareholders. Page 17

Russia extends hostage deadline: Russia gave Chechen gunmen another night to free 70 hostages being held at Pervomaiskoye in Dagestan after they ignored an earlier ultimatum. Page 2

Telecom groups 'underestimate' internet: Major telecommunications operators underestimate the threat from the Internet, according to London stockbrokers Durlacher. Page 6; Media Futures, Page 11

China warns UK on boat people: China warned Britain it must take responsibility for the resettlement and repatriation costs of the 21,000 Vietnamese boat people remaining in Hong Kong. Page 3

Iowa debate focuses on Forbes: The national televised debate from Iowa by the nine Republican candidates for the US presidency was dominated by attacks on contender Steve Forbes and his belief in a flat income tax. Mr Forbes said he was setting the agenda for the campaign. Page 16; Mistrust abides in Iowa, Page 4; Editorial Comment, Page 15

President Menem to pursue third term: President Carlos Menem of Argentina intends to seek a third presidential term, from 2003, but he intends to respect the constitution by not running for re-election in 1999. Page 4

British Airways has asked five aircraft manufacturers to submit bids to supply up to 60 regional jets. BA said the order could be worth more than $1bn. Page 16

Three charged over Rabin murder: Yigal Amir, who confessed to killing former Israeli prime minister Yitzhak Rabin, and two other men were formally charged in a Tel Aviv court with conspiracy to murder. Naming names, Page 4

Granada, the UK leisure company, tried to strike a deal which could have given it voting control of hotel group Forte for just £50m whatever the outcome of its £3.8bn ($5.85bn) hostile bid. Page 17; Lex, Page 16

Steel output 'to remain constant': Steel production in Europe, the US and Japan is likely to fall by 5 per cent this year, according to a leading forecaster. But the decline will be offset by growth in developing countries in Asia, leaving global output unchanged. Page 4

Gucci's float boosts Investcorp profits: Net profits at Bahrain-based investment group Investcorp rose 38 per cent to $70.3m in 1995 after the flotation of Italian fashion house Gucci. Page 18

Vietnam party chief urges action on debt: Vietnam risks becoming a debtor nation unless it repays the money owed to international creditors and increases domestic investment, Communist party general secretary Do Muoi said. Page 3

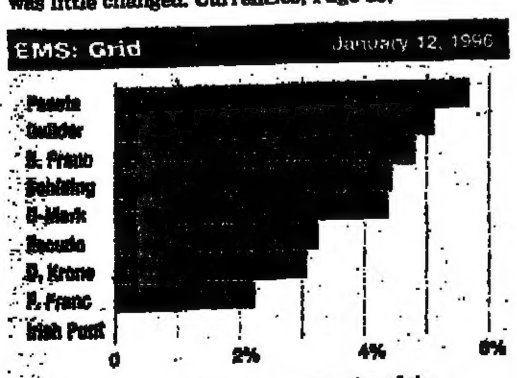
Greek bank sell-off a priority: Greece's central bank has wiped a stain off its reputation by restructuring the Bank of Crete, a private Greek bank struggling to recover from a $200m embezzlement scandal in the late 1980s. The government has made privatising the bank a priority. Page 2

Couples marry in lavatory block: Eight Taiwanese couples got married inside a luxurious $1m public lavatory which was designed and built by one of the couples in Taichung.

Cricket: South Africa beat England by seven wickets at Pretoria in the fourth one-day international. The home side scored 276-3 in 48 overs after England hit 272-8. England trail 3-1 in the seven-game series after losing Saturday's match.

European Monetary System: The peseta maintained its position on top of the EMS grid, in spite of a 20 basis point cut in short-term interest rates. Against a backdrop of a generally weaker D-Mark, the only change to the order was the escudo climbing above the Danish krone. The spread between strongest and weakest currencies was little changed. Currencies, Page 25;

EMS: Grid — January 12, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Austria	Sch37	Greece	Dr400	Malta	Lm0.65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDh18	S.Arabia	SR12
Belgium	BFr75	Hungary	Ft230	Neth	Fl 4.75	Singapore	S$4.30
Bulgaria	Lv120.00	Iceland	IKr230	Nigeria	Naira90	Slovak Rp	Sk65
Cyprus	C£1.20	India	Rs75	Norway	NKr20.00	S. Africa	R12.00
Czech Rp	Kc60	Israel	Shk7.90	Oman	OR1.50	Spain	Pta250
Denmark	DKr18	Italy	L3200	Pakistan	Rs40	Sweden	SKr20
Egypt	E£5.00	Japan	Y500	Philippines	Pes50	Switz	SFr3.70
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl3.50	Syria	S£65.00
Finland	FM15.50	Kuwait	Fils 650	Portugal (mainland)	Esc240	Tunisia	Din1.750
France	FFr11.50	Lebanon	US$1.50			Turkey	L70,000
Germany	DM4.00	Lux	LFr75			UAE	Dh12.00

Euro-bank head rejects recession fears over Emu

Lamfalussy optimistic over German economic slowdown

By Peter Norman in Bonn, Andrew Fisher in Frankfurt and Lionel Barber in Brussels

Mr Alexandre Lamfalussy, the president of the European Monetary Institute, has rejected the idea that Europe is heading for a recession that would jeopardise European monetary union.

His remarks follow conflicting views from German politicians over the weekend about the likely impact of a widespread economic downturn on progress towards Emu, scheduled for January 1 1999.

Mr Gerhard Schröder, the Social Democratic prime minister of the state of Lower Saxony, called for the introduction of the single European currency to be postponed and a renegotiation of the Maastricht Treaty.

But at the weekend the German government stood solidly by Emu and the Maastricht timetable. Mr Helmut Kohl, the chancellor and leader of the Christian Democratic Party, told a gathering of the CDU leadership near Bonn there was no question of delaying Emu.

In an interview with the Financial Times, Mr Lamfalussy, the head of the forerunner of the planned European central bank, admitted there had been an economic slowdown in Germany and the rest of Europe.

"But what makes me rather less pessimistic than the current mood is the fact that I don't see any of the traditional early warning signs or indicators of a business cycle downturn," he said.

There was no worsening of profits or corporate indebtedness and these had been the single most important elements in every business cycle downturn for the past 150 years, he said.

Last week, Germany reported a sharp rise in unemployment in December. Together with the virtual stagnation of the economy in the past six months and the country's failure in 1995 to keep its public deficit below the Maastricht Treaty limit of 3 per cent of gross domestic product, this unleashed a welter of speculation that Emu might be delayed.

CDU growth package .... Page 2
Emu's sprightly defender .... Page 15
Government bonds record .... Page 17
Threats to recovery .... Page 19

But Mr Lamfalussy said that Germany was capable of meeting the entry criteria set in the Maastricht Treaty "perhaps already this year and certainly next year".

France, whose membership of Emu "is indispensable for political reasons", was "not that far away economically". Its main problem of an excessive public sector deficit was manageable, he said. Germany, France and some smaller countries could start Emu as planned in 1999.

In a radio interview, Mr Theo Waigel, German finance minister and leader of the CDU's Bavarian sister party, the Christian Social Union, warned that anybody questioning Emu risked triggering currency speculation that would lead to a further upwards valuation of the D-mark, threatening German exports and jobs.

But, in an interview with today's issue of the weekly magazine Der Spiegel, Mr Otmar Issing, a member of the Bundesbank council and its chief economist, said the setting of deadlines for Emu in the Maastricht Treaty was a policy "with risks that should not be underestimated".

Making Emu the pacemaker for political union in the European Union had been "to put the cart before the horse" and was far from optimal. "The real problem" was whether sufficient time remained to arrange a successful start to the single currency and single monetary policy.

In his interview, Mr Lamfalussy warned that an indefinite delay to Emu "would be a political shock", jeopardising EU progress in other areas of policy.

However, he did not rule out a temporary hold-up.

Poll position: Socialist candidate Jorge Sampaio who gained an emphatic victory in yesterday's Portuguese presidential election against Social Democrat Aníbal Cavaco Silva
Picture: AP

Socialist Sampaio wins in Portugal's presidential poll

By Peter Wise in Lisbon

Mr Jorge Sampaio, the socialist candidate, was voted president of Portugal yesterday, defeating his conservative adversary, Mr Aníbal Cavaco Silva, by a clear margin.

The victory comes four months after the election of a Socialist government, confirming the Socialists as the dominant force in Portuguese politics. It is the first time since the return of democracy in 1974 that Portugal's voters have chosen a president from the same ranks as the ruling party.

Mr Cavaco Silva's campaign headquarters acknowledged defeat last night as state television forecast that Mr Sampaio, a former Socialist party leader, would win 52 per cent of the vote, against 48 per cent for Mr Cavaco Silva, a former prime minister.

Mr Sampaio's victory was expected to end the long political career of Mr Cavaco Silva, who warned that his defeat would lead to a dangerous concentration of power in the hands of Socialists.

Mr Sampaio, until recently mayor of Lisbon, was backed by Mr António Guterres, the prime minister, whose Socialists defeated Mr Cavaco Silva's centre-right Social Democrats (PSD) in a general election last October, ending a decade of conservative rule.

As well as enthusiasm for Mr Sampaio himself, the victory was seen as reflecting support for the minority Socialist government and disapproval of Mr Cavaco Silva, a tough-minded economist whose government had grown increasingly unpopular towards the end of his 10 years as prime minister.

During the campaign, Mr Guterres said Mr Sampaio, an urbane Lisbon lawyer, would be "a guarantor of political stability and effective government". The Socialists are four seats short of an overall majority and risk being defeated in parliament by a combined vote of opposition parties on the left and right.

The backing of a Socialist president, who has the power to dissolve parliament and call an early general election, could be vital to the government as it prepares to implement spending cuts in an effort to meet the European Union's convergence criteria for economic and monetary union.

Mr Sampaio, who succeeds fellow Socialist president Mário Soares, said Mr Cavaco Silva planned to set himself up as a counterweight who would obstruct and undermine the Socialist government.

End of an era, Page 2

Nuclear disaster threat 'greatest since cold war'

By John Lloyd in London

The threat of a nuclear catastrophe, including a terrorist attack, is greater than at any time since the height of the cold war and is now the biggest security risk facing the west, a team of top US scientists has warned.

Because of the leakage of weapons-grade nuclear material from countries in the former Soviet Union, the potential for mass slaughter has increased rather than diminished since the cold war ended, say the researchers at Harvard University's Centre for Science and International Affairs.

A report by the team, led by Professor Graham Allison, a consultant to the US Defence Department and a former assistant defence secretary, is the most detailed of a series of warnings delivered in the last year by US and other officials.

Bear fond of its claws .... Page 4

Couched in grim language, it says that in spite of the warnings, the issues of nuclear insecurity – which lie largely in Russia – are being addressed slowly or not at all.

"Huge uninventoried quantities of weapons-usable material are stored and transported under conditions of extreme insecurity, while Russia undergoes convulsive change ... Without US assistance, trouble is virtually certain," the scientists warn.

Though the report, to be published next month, will have no official status, its conclusions are strongly supported by Senator Richard Lugar, a contender for the US Republican presidential nomination who has featured them in his campaign, and by Mr Sam Nunn, the retiring Democratic senator and security expert.

The aim of the report is to deliver a jolt to the US administration and its allies in the hope of improving the funding for combating the dangers.

Richard Lugar: strong backing for report's conclusions

In nearly 300 pages of evidence, the report warns that:

- Russian storage facilities for weapons-grade fissile material, much of it the product of arms dismantled under various agreements, are in some documented cases less well guarded than standard industrial plants.
- The transportation of this material by rail and road, passing from control of one agency to another, is highly insecure.
- The living conditions and morale of many of the 1m workers in the Russian "nuclear archipelago", and of the security forces guarding the nuclear sites and transportation, are low and present a temptation to assist nuclear theft and smuggling.
- The demand for nuclear material, both on the part of radical states like Iran, Iraq and North Korea, and of terrorist groups is high and could be well funded.
- It is not difficult to obtain, transport or smuggle the material, and cases where nuclear material has been discovered in criminal hands shows a willingness by senior officials to act as "insiders" on the crime.

N-reactor probe man commits suicide

By Emiko Terazono in Tokyo

The suicide of a senior Japanese official who was investigating a leak last month at the country's newest nuclear reactor has shocked the industry and is likely to heighten the public controversy over nuclear development plans.

Mr Shigeo Nishimura, 49, deputy general manager of the state-owned Power Reactor and Nuclear Fuel Development (PNC), and head of an in-house investigation into the accident, jumped from his hotel window in Tokyo on Saturday morning.

The incident followed revelations late last week that officials at PNC, in charge of operating Monju, the country's experimental fast breeder reactor in western Japan, had tried to cover up the accident. The reactor was shut down last month following a sodium coolant leak.

Officials directly in charge of Monju's operations were replaced in December after they admitted hiding video footage of the damage. PNC officials last week apologised that the company's headquarters also concealed a copy of the tape.

Copies of the tape were concealed from the Science and Technology Agency, directly in charge of PNC, prompting anger from the government as well as the public. Mr Nishimura was in charge of investigating those deemed responsible for the cover-up.

Three suicide notes, parts of which were released by police, portrayed a man driven to the brink by non-stop work. He was said to have been tormented by failure to get to the bottom of the cover-up and by the harm his inquiries would do to colleagues and the government corporation for which he worked for 26 years. He died the day after attending a news conference at

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CONTENTS

CDU agrees package to boost jobs and growth

By Peter Norman in Bonn

The leadership of the governing Christian Democratic Union has adopted a four-point programme as the basis for a package of measures to tackle Germany's soaring unemployment and falling growth.

Mr Peter Hintze, general secretary of the CDU, the senior partner in the governing coalition, said the party agreed over the weekend that the package should focus on cutting labour costs, easing business taxation, lowering subsidies (notably in the coal industry) and promoting the foundation of new companies and strengthening the capital base of existing ones.

Chancellor Helmut Kohl told the meeting at Mayschoss in the Eifel hills near Bonn that 1996 would be a key year for the government. Mr Kohl – speaking after a week in which official figures revealed a near stagnant economy and unemployment at just under 10 per cent – pledged that growth and jobs had become the government's "highest priority".

Details of the package will be hammered out in meetings involving the coalition partners, trade unions and employers between now and the end of the month, when the measures are due to be finalised by the cabinet. They would then be debated in the Bundestag, the lower house of parliament, on February 8.

Mr Hintze said the CDU looked to trade unions and employers for job creation in return for wage restraint and sympathised with the "alliance for jobs" proposed by Mr Klaus Zwickel, head of the IG Metall trade union. Mr Hintze noted that every one percentage point increase in wages added DM18bn (£8.1bn) to business costs.

At the weekend, the "alliance for jobs" idea produced its first success. The Volkswagen car company is to create 1,000 jobs this year in return for lower overtime payments.

Mr Hintze added that the CDU also wanted to cut coal subsidies between 2000 and 2005 to allow time for restructuring the economies of coal mining areas.

The party's agenda included lower business taxes, including abolition of the local trading capital tax and the wealth tax as it affected companies.

It also wanted to give special tax concessions to those founding companies in the production industries and some service sectors because each new company created an average of four jobs.

However, the Bonn government has only limited powers to deliver such a package. Once agreed by the cabinet, the legislative parts of the package will need support from the opposition Social Democratic party, which controls the Bundesrat, the second chamber of the Bonn parliament. Lowering labour costs will depend on separate agreements between employers and unions.

Mr Hintze believed the worsening of the economy and widespread awareness of Germany's high costs could spur agreement on the measures, notably among the SPD-led state governments.

But the government is also faced with internal stresses that could threaten Mr Kohl's 10-seat majority in the Bundestag. Over the weekend, the small liberal Free Democratic party continued at loggerheads with its CDU and Christian Social coalition partners by maintaining its demand for a cut next year in the 7.5 per cent "solidarity surcharge" on income taxes. The Welt am Sonntag newspaper reported that three FDP members of parliament would vote against the 1997 budget later this year if it did not cut the surcharge.

EUROPEAN NEWS DIGEST

Tensions grow in Chechnya

The five-day stalemate between Russian authorities and Chechen hostage-takers dragged on yesterday, amid fears the crisis is likely to end in a bloody shoot-out.

Five months ahead of scheduled presidential elections, the hostage drama is viewed as a critical test of Russian President Boris Yeltsin's ability to lead the country, and most analysts say he has taken a hard line. This trend has extended to Kremlin politics, with the weekend resignation of one Mr Yeltsin's senior liberal aides. Mr Sergei Filatov had been the head of the presidential administration and one of the leading liberals in Mr Yeltsin's entourage.

Chechen gunmen yesterday defied a Russian deadline to hand over the estimated 116 hostages seized last week. Russian authorities said they would give the Chechen fighters, besieged in the village of Pervomaiskoye, one more night "to think things over". *Chrystia Freeland, Moscow*

Kinkel plea over Bosnian Croats

Mr Klaus Kinkel, the German foreign minister, yesterday called on Croatia to bring to heel its Bosnia proxies in an attempt to defuse tension in the divided city of Mostar.

Mr Kinkel was visiting Mostar after several shooting incidents this month between Moslems and Croats in the city in south-western Bosnia threatened to undermine their federation, the basis for the Dayton peace agreement.

Mr Kinkel, whose country wields great influence over Zagreb, said: "The federation must live," and issued a two-week deadline for the two communities to demarcate their administrative boundaries in Mostar. *Laura Silber, Sarajevo*

Soros in Russian Internet plan

In a tentative vote of confidence in the Russian economy, Mr George Soros, the American financier and philanthropist, yesterday announced a new Internet project in Russia and said he had begun investing in the volatile country after pulling out most of his holdings in 1994.

Mr Soros said he planned to invest $1.5m (£975,000) in an Internet project to connect Russian hospitals, museums, schools and scientific institutes to the international computer super-highway. Russia's strong scientific and mathematical tradition has made the country quick to adopt the latest computer technology, but its primitive telephone lines have held back the development of a national computer network.

But Mr Soros also warned that Russia's investment climate ahead of June presidential elections was "extremely precarious" and said a Communist victory in the poll could force him to reconsider his Russian investment strategy. "If there is a change in president, there could be a substantial change in Russia." *Chrystia Freeland*

Polls back Spain's opposition

Three opinion polls yesterday confirmed the centre-right Popular party's expectations of winning Spain's March 3 elections, but differed markedly on how closely the ruling Socialists were trailing behind.

The PP's lead varied from 9.7 points, in El Mundo, to 5.5 points, in La Vanguardia. El Mundo's poll gave the PP 40.6 per cent of the vote, enough for 167-174 seats, just short of an outright majority. The Socialists obtained 30.9 per cent and 115-120 seats, against 159 in the outgoing parliament. La Vanguardia's poll, however, gave the Socialists 34 per cent and 135-145 seats against the PP's 39.5 per cent and 155-165 seats. If this proved right, Catalan and Basque nationalist parties could decide who governs. *David White, Madrid*

Italy takes Dini resignation in its stride

Parties must choose between reforms and early elections, writes **Andrew Hill**

Italians are so accustomed to political volatility that they treat the start of a government crisis almost as though it is a formal step in the constitutional process.

That may be why, when Mr Oscar Luigi Scalfaro, Italy's president, accepted the resignation of Mr Lamberto Dini's technocratic government on Thursday, financial markets were unmoved. Many commentators expressed relief that at last the parties would have to make up their minds between forming a broad-based government to pursue constitutional reform and holding early elections.

Neither Mr Scalfaro nor Mr Dini wanted it to happen like this. They would have preferred that the government – backed by the centre-left parties in parliament – survive at least until June, when Italy's six-month presidency of the European Union ends. When Mr Dini first offered his government's resignation on December 30, the president refused it and asked parliament to decide on the next step.

As Mr Dini said in his short resignation speech, the parties did reach some consensus during the two-day debate on the government's future. They agreed that the administration had run its course; that they were broadly favourable to constitutional reform, aimed at stabilising Italy's volatile politics; and that it would be better to maintain a stable government during the EU presidency.

But Mr Dini had already seen the writing on the wall. He stepped down before parliament could vote on a resolution calling for him to resign, tabled by the centre-right parties and backed by the Marxist left. From now on, he is only a caretaker prime minister, and his government's powers are limited.

Mrs Susanna Agnelli, Italy's foreign minister, was keen to underline last week that this did not jeopardise the EU presidency. But the crisis may slow down plans to privatise Enel, the electricity producer, and Stet, the telecoms holding company, in the first half of this year. One of the most able members of the cabinet, Mr Rainer Masera, has already announced his resignation as budget minister and returned to his job as managing director of Imi, the banking group.

> Crisis may slow down plans to privatise Enel and Stet this year

From Mr Dini's point of view, however, his decision to pre-empt a formal vote in parliament means that he cannily remains one of the leading candidates to head the next government.

Mr Scalfaro will begin formal discussions on the way forward today and he is determined to take his time. His programme for meetings with former presidents, speakers of both houses of parliament, and party leaders will take up the whole week.

The president may well appoint a non-partisan figure – Mr Carlo Scognamiglio, the speaker of the upper house of parliament is one name put forward – to sound out the parties on the likelihood of an agreement on reforms. The theory is that improvements to electoral laws, changes to the bicameral parliament and moves to strengthen the role of the prime minister will stabilise the Italian political system.

Mr Massimo D'Alema, leader of the former communist Democratic Party of the Left (PDS), was irritated by the centre-right's tactical victory in last week's parliamentary debate, but he is prepared to talk to Mr Silvio Berlusconi, leader of the centre-right, about reforms. Mr Berlusconi was a vocal advocate of early elections all last year, but in late December said he was ready to explore the possibility of a broad-based government which could carry through reforms. Mr D'Alema urged supporters on Saturday to have the courage to seek such an agreement with their opponents on the right.

This sounds promising, but even if the main political groupings are prepared to talk to one another about reform, they are split internally about how to proceed. For instance, Mr Gianfranco Fini, who heads the right-wing National Alliance, is at loggerheads with Mr Berlusconi on reform.

To add to the uncertainty, the immediate future is muddied by judicial issues. Mr Berlusconi's trial on corruption charges is scheduled to begin in Milan this Wednesday and last week he also had to hit back against reports that he and his brother were under investigation for trying to stop Mr Antonio Di Pietro, the popular former anti-corruption magistrate, entering politics.

A senior judge, Mr Berlusconi pointed out, had found no evidence in tapped phone calls to justify such a charge. But the controversy – fuelled by the publication this weekend of transcripts of Mr Di Pietro's phone calls to political backers – is a reminder that in Italy, it is always risky to leave a political vacuum unfilled for long.

See Lex comment

Test drive for Italian motor insurance

Royal's launch of direct selling in Lombardy today is part of a wider European trend

From a distinctive white pinecone-shaped building just off the Milan ring-road, Royal Insurance of the UK today launches what it describes, in a play on the insurer's initials, as a *rivoluzione inglese* (an English revolution).

Royal is one of the first foreign companies to move into "direct" selling of motor insurance in Italy. Mr Clive Mendes, managing director, says many Italians are interested in an alternative to the traditional networks of local agents which dominate the sector.

His staff promise quotes by telephone (12 minutes is the target for an initial estimate), simple "common-sense" policies, and speedy and efficient claims assessment. For a more personal service, Royal's Milan headquarters has a drive-in basement, where clients can meet a uniformed team of sales people, inspectors and claims assessors.

Royal hopes to take Milan by storm with its English revolution campaign *Reuter*

Royal's initiative – aimed, for the time being, only at the prosperous region of Lombardy – is part of a European trend by insurers to set up telephone-based insurance operations which cut out brokers or agents and their commissions.

The spur has been European Union directives which since 1994 have swept away many restrictions on policy terms and rates. That has encouraged insurers to price policies individually by computer and to find ways of offering cheaper rates to less risky customers.

Much of the focus so far has been on relatively simple motor insurance products but attention could shift in the future to household and other personal lines including life insurance.

Like Royal, which also has a direct operation in Barcelona, many of the pioneers are from the less regulated UK market where direct selling is widespread and fiercely competitive. Direct Line – now the UK's largest private motor insurer – set up an operation in Spain in 1994 in conjunction with Bankinter, the Spanish bank.

Sun Alliance, another UK-based insurer, is tackling the large German market, despite local warnings that Germans' strong affinity to insurance agents is unbreakable. "Similar claims," says Mr Graham Treharne, manager of Sun Alliance's overseas direct operations, "would have been made about brokers in the UK 10 years ago."

In Italy, Royal's Mr Mendes said: "The insurance market is going to become quite dynamic over the next few years." Assicurazioni Generali – the country's biggest insurance company – maintains it was one of the first to spot the opportunities. It launched a national telephone insurance operation, Genertel, in 1994, to coincide with liberalisation. Mr Giovanni Liverani, marketing manager, said the development of new methods of insurance selling would bring "more competitiveness and greater efficiency into the market".

But neither Generali nor Royal – which insures 500,000 vehicles through Lloyd Italico, its existing agent-based Italian subsidiary – is abandoning traditional distribution networks just yet. "Agents will remain the major players [in Italy]," said Mr Liverani.

Their caution is probably wise. Insurers agree establishing direct selling in continental Europe will be harder than in the UK.

In France, where the UK's Sun Alliance has recently bought a direct operation, the record is unimpressive. While French insurers, such as AGF and GAN, have launched potentially promising telephone sales operations in countries such as Spain and Ireland, they have had difficulties doing so at home.

According to the French Federation of Insurance Companies, just 4 per cent of life sales and 3 per cent of non-life policies in 1994 were generated by direct methods. Those figures have been static in the past few years.

Part of the reason has been tremendous competition for insurance policy sales. Most of the larger French insurers have forged alliances with banks, providing a powerful alternative distribution network. France also has a strong network of independent insurance brokers.

Perhaps the biggest structural challenge to direct sales, however, has come from the "general agents", a network of insurance sales intermediaries linked closely to most of the large insurers, and opposing the growth in telephone sales as a threat to their market.

In Germany some insurance observers argue that products sold by telephone are perceived as cheap and over-simplified – and that deregulation has increased the need to seek face-to-face advice.

The country's dozen or so direct motor insurers have only about a 5 per cent market share. At Munich-based Allianz, Europe biggest insurer, Mr Emilio Galli-Zugaro said setting up a telephone sales operation similar to those of rivals "is not on the agenda".

But traditional sales methods are not immune. In a telling development, Allianz has begun selling travel accident insurance via interactive computer systems. Commissions are still paid to local agents, who sell other products to purchasers and offer follow-up advice, but the customer is, in effect, buying "direct". If such schemes spread to other products, the boundary between direct and conventional sales routes would become blurred.

Andrew Hill, Andrew Jack and Ralph Atkins

Sampaio victory ends era in Lisbon

By Peter Wise in Lisbon

The victory of Mr Jorge Sampaio, the Socialist candidate, in yesterday's presidential election, marks the end of a conservative era that advanced Portugal economically but failed to fulfil voters' aspirations for social change.

The defeat of Mr Aníbal Cavaco Silva, the conservative candidate in the presidential race, comes hard on the heels of the Socialists' general election victory over his centre-right Social Democrats (PSD) last October, ending Mr Cavaco Silva's 10 years as prime minister.

Mr Sampaio's victory is largely an expression of support for the minority Socialist government amid fears that Mr Cavaco Silva could have undermined it in a political crisis. But the election was also partly a referendum on the conservative era that Mr Cavaco Silva epitomised.

"If the election were two months later, my victory would be certain," Mr Cavaco Silva said during the campaign, acknowledging that the unpopular last years of his government would weigh strongly against him. "I may lose the election but the judgment of history will be in my favour."

Mr Cavaco Silva, 56, was virtually unknown when he first came to prominence as an austere finance minister 12 years ago and led the PSD to two overwhelming general election victories in 1987 and 1991. After vowing last week that he would never fight another election, his meteoric political career appears to be at an end. He is to resume his post as an economics professor.

By contrast, Mr Sampaio, also 56, is a life-long politician who began as a student leader of opposition to the authoritarian Salazar regime. His career peak, until yesterday, was his short-lived leadership of the Socialist party that ended with the election defeat by Mr Cavaco Silva in 1991. He went on to become mayor of Lisbon.

Although not a charismatic figure, Mr Sampaio embodies a new mood in Portugal in which issues such as education, health, housing, the environment and culture have taken prominence over what is now seen by many voters as the "nouveau riche" materialism of the Cavaco Silva era.

Mr Cavaco Silva, heading the first stable government Portugal had known since the return of democracy in 1974, was able to implement far-reaching reforms that have transformed the country's physical appearance.

After taking Portugal into what is now the European Union in 1986, he channelled a huge inflow of structural funds into the building of new roads, bridges, hospitals and schools. He launched an ambitious privatisation programme that is now moving towards completion and established a sound foundation for economic growth based on low inflation and controlled deficits.

These reforms have been embraced by the new Socialist government. But Mr Natónio Guterres, the prime minister, has won popularity by adding a social dimension to economic issues.

Mr Sampaio has won support for his championing of political tolerance, in contrast to allegations of "arrogance" made against Mr Cavaco Silva.

The former prime minister denies ever saying "I never make mistakes and rarely have any doubts". But it is a phrase attributed to him that is likely to go down in history as an indication of how the Cavaco Silva era came to an end.

Bank of Crete sell-off a priority

By Kerin Hope in Athens

Greece's central bank has wiped a stain off its reputation by restructuring the Bank of Crete, a private Greek bank still struggling to recover from a $200m (£130m) embezzlement scandal in the late 1980s.

The government has made privatising the bank a priority, a commitment welcomed by Mr Loukas Papademos, the central bank governor. He said: "A lot of work has been done in the past few months on cleaning up the balance sheet. Following the recapitalisation, Bank of Crete is a much healthier institution."

Earlier this month the central bank split off Dr32bn (£87.3m) in assets and liabilities linked with the embezzlement into a separate bank which is to be liquidated. At the same time the solvent bank received a capital injection of Dr43bn from the state.

The restructuring opens the way for the government to privatise Bank of Crete later this year, under a plan to boost competition in the banking sector by selling smaller state-controlled banks.

Bank of Crete is to be offered for sale through a competitive bidding process, following evaluations by two independent advisers.

Mr Papademos made clearing up the Bank of Crete affair a priority after taking over as central bank governor in 1994. By then the central bank's five-year mandate to run Bank of Crete had expired, a commissioner appointed by the government to head the bank had been accused of irregularities and losses were piling up.

The embezzlement scandal had helped bring down the Socialist government in 1989. It also triggered harsh criticism of the Bank of Greece for failing to uncover the losses during routine checks, and for delaying an official investigation.

The bank's former owner, Mr George Koskotas, is serving a jail sentence for fraud. He was found guilty of embezzling funds equivalent to £130m, some of which he claimed were handed over to Socialist officials in return for political favours.

The central bank initially rescued Bank of Crete by providing a special five-year, interest-free loan of Dr25m and temporarily waiving the compulsory reserve requirement under which banks must place a percentage of deposits with the central bank.

Though deposits gradually returned as confidence in Bank of Crete was restored, Greek bankers say the quality of its loan portfolio deteriorated sharply during the central bank's administration.

Bank of Crete also became less competitive because it failed to take advantage of liberalisation of the Greek banking sector in the early 1990s. While other Greek banks posted strong profits with new products and a boost in foreign exchange operations, Bank of Crete made losses last year of around Dr5bn.

After restructuring, Bank of Crete's assets amount to Dr321bn. Deposits have grown to Dr274bn, while loans total Dr165bn, including some non-performing loans dating from after Koskotas.

To potential buyers, Bank of Crete's main attraction is its network of more than 80 branches. But as one Greek banker put it: "The down side would be acquiring staff who haven't had any incentive to do a proper job for nearly 10 years."

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8250, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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NEWS: ASIA-PACIFIC

Children watching a television set in the street [illegible]

Beijing switches off television oversupply

Colour tube ventures frozen in bid to rationalise China's electronics industry. Tony Walker reports

In the early days of economic reform, one of the most telling images of China was of citizens huddled in front of shop windows or in village squares watching a flickering picture on a black and white television. But in a reversal of those times when TV ownership was for the privileged few, China has been obliged to take drastic steps to restrain television production to deal with a glut that has bankrupted one producer and is threatening others.

The Ministry of Electronics Industry last week announced that approval would be frozen for proposed new ventures to produce colour TV tubes, and measures were also being drafted to restrain production of colour sets. New projects, or an expansion of existing facilities, would only receive the go-ahead if they were geared solely to export.

The spokesman made it clear that preference would be given to ventures involving foreign participation and large-scale production, and the transfer of advanced technology.

This echoed comments earlier in the week by Mr Zhang Jingqiang, vice minister of electronics industry, who had criticised in a briefing with reporters what he described as a "hot trend" of setting up smaller joint ventures at local level to produce colour televisions without regard for the needs of the market. "We prefer technological co-operation between national enterprises with a certain technological and production scale and large foreign companies," he said.

Rationalisation proposals for the electronics industry mirror in a way those for the car sector, where the authorities are seeking to cut the numbers of producers and in the process encourage establishment of large-scale production units with foreign involvement.

China, one of the world's leading cotton exporters, was expected to be a net importer for the first time last year, the China Daily reported yesterday, AFP writes from Beijing. At the end of September, cotton yarn exports were 90,200 tonnes, while imports were 112,900 tonnes. The deficit for the full year was forecast at around 40,000 tonnes, the official newspaper said. Cotton production in China fell from 6.26m tonnes in 1984 to 4.25m tonnes in 1994 because of natural disasters and abandonment of cotton by farmers for higher-revenue crops.

The announcement last week that the Shijiazhuang Television Factory, one of China's larger plants, had been declared bankrupt with debts of Yn296m ($36.5m) and assets of Yn168m is a sign of the times for local producers whose technology has become outmoded. Other such local manufacturers, especially those whose products are aimed at the lower end of the market, are in trouble.

China last year produced 18m colour television sets, but estimates of TVs smuggled into the country range up to 5m. If the smuggled items are taken into account, supply may have exceeded demand in 1995 by as much as 30-40 per cent.

Demand for colour sets under the ninth five-year plan (1996-2000) is estimated at 70m-80m sets, or about 15m a year, against planned production of 20m sets a year.

Over-production of colour television tubes and televisions is far from the only headache, however, facing the powerful Ministry of Electronics Industry. It has also found it necessary to curb production of laser audio videos, integrated circuit cards and liquid crystal displays.

The television glut is a symptom of China's painful transition from a centrally planned economy to what the Chinese describe as "socialist market system". In the process planning controls have been loosened and local governments have been given autonomy to approve projects up to the value of £19m.

This has led to the establishment of a plethora of smaller plants producing a range of electronic items, chief among them TV components. For example, Chinese integrated-circuit factories have capacity of 100m chips a year, compared with demand of just 15m.

Mr Zhang said last week that supply across the board in the electronics industry had exceeded demand by about one-third, leaving warehouses filled with unsold goods.

Production of electronics items reached Yn230bn last year, a 23.5 per cent jump over the year before. Sales rose 27 per cent to Yn165bn. The industry generated profits and taxes of Yn12bn, up 20 per cent on 1994.

While surplus production is the electronics sector's most immediate problem, looming in the background is China's plan to reduce tariffs on 4,000 items from April 1. China's average tariff will come down to about 23 from 35 per cent, adding to pressures on local industry.

Mr Zhang acknowledged this at last week's briefing when he said: "The tariff cuts will increase imports... competition will become fierce." But as yet China has not released details of tariff reduction on electronic items. The booming electronics sector seems set for a bumpy ride, and something of a shakeout among smaller and less efficient producers.

Indian deal will not end blackouts

New projects must fulfil 9% annual growth in power demand. Mark Nicholson reports

Successively last week, visiting ministers from Canada, Singapore, Britain and Norway each uttered words of relief to 1,500 top business delegates, gathered in Bombay for a Confederation of Indian Industry summit, that the state government of Maharashtra had finally approved the controversial Dabhol power project.

Now that India's biggest foreign investment had been cleared, was the message, the revived Dabhol deal might restore shaken confidence in India's efforts to draw foreign investment into power.

Good news, agreed Mr N.K.P. Salve, India's power minister. But he swiftly proceeded to the bad, placing the Dabhol project into discomfiting context and explaining why its approval alone would not rescue India's problematic experiment with private power.

His ministry's estimates show the $2.5bn Dabhol investment represents just 1.6 per cent of the investment India needs to meet its "barest minimum" power demands by 2007. With power demand rising at 9 per cent a year, he told the CII audience, India would by then need to have added 142,000MW of generating capacity to the 81,000MW now installed – requiring investment of $150bn.

Even this, he said, would raise India's per capita power consumption from the present 330kWh a year, among the lowest rates in the world, to just 500kWh: China's *present* consumption is already 700kWh a head.

Attracting foreign capital is India's only choice, he said. "The Indian government has no money, the states have less and India's financial institutions can raise only Rs250bn [$7bn] for *all* infrastructure spending." But, while 245 memorandums of understanding have been signed between state governments and private and foreign contractors, progress on the projects is "very slow". "The investors are very scared – they don't know what is going to happen to them. They need a congenial atmosphere and we have not been able to create it. We have not been able to create confidence and trust."

Selected power projects in India

Name of Project	Capacity (MW)	Promoter	State
Dabhol	2,184	Dabhol Power	Maharashtra
Paguthan	655	Gujarat Torrent Energy	Gujarat
Jegurupadu	216	GVK Industries	Andhra Pradesh
Godavari	208	Spectrum Power Generation	Andhra Pradesh
Neyveli	250	ST-CMS Electric	Tamil Nadu
Ib Valley	2 x 210	Ib Valley Power	Orissa
Maheshwar	400	Sri Maheshwar Hydel Power	Madhya Pradesh
Korba West	2 x 210	Mukund	Madhya Pradesh
Pillaiperumalnallur	320	Dyna Makwski Power	Tamil Nadu
Mangalore	4 x 250	Mangalore Power	Karnataka
Visakhapatnam	2 x 500	Hinduja National Power	Andhra Pradesh
Duburi	2 x 500	Kalinga Power	Orissa

The problem, Mr Salve suggested, had been the "pernicious" politicisation of foreign-backed power projects, exemplified in the Dabhol case. Most power analysts would agree that this is a factor in India's present power investment malaise, but not the only one.

One consequence of Maharashtra's politicised and apparently successful efforts to beat down Enron, the US company leading the Dabhol project, on both project and tariff prices has been to inspire emulation from states elsewhere. Enron's was the only contract to have been renegotiated after its signing. But seven other "fast track" power projects – those offered central government payment guarantees – have come under similar pressures. "Once a cut is made in one project, the other states take this as a benchmark and expect it to be matched," says a UK power executive. "It's become perpetual renegotiation."

Perhaps the worst example is the case of AES Transpower, a US energy group, which is into the fourth renegotiation of its power contract with the state of Orissa. AES has had entirely to reconfigure its three-year-old project to meet cost-cutting demands. Another government review is in progress. Indicatively, AES's last expatriate manager left India for China last week. "We can't afford to lock up resources here," he said.

Such renegotiations are partly a consequence of recent falls in power generation equipment prices. They also result from state governments' growing savvy in negotiating private power deals – agreements virtually unknown in India four years ago when talks began on most of the power deals.

But India's power investments are also mired in policy pitfalls and structural problems besetting the existing power sector. "There's a clear recognition in government that there are major problems with this policy today," says a western energy economist.

India's government hoped, when it announced its private power plan in 1992, to pump-prime foreign investment by offering a select eight projects guarantees of payments from the state electricity boards, which in each case are the direct power purchasers, but which are mostly insolvent: a consequence of the politicised SEBs offering massively subsidised electricity to India's farmers. So far only two guarantees have been negotiated, including one for Enron.

Negotating these guarantees has proved tortuously complex, largely because the Indian government is anxious to minimise its potential liabilities. For this reason, too, it recently said it would offer no additional guarantees.

The assessment of power bids has also caused problems. Tenders are costed by a mix of both total project cost and fuel prices. But the inclusion of gross project costs has encouraged state governments to attack these totals, usually alleging "cost padding" by foreign companies.

Most problematic, however, for all the projects without government guarantees is how developers can secure financing for contracts signed with the largely loss-making state electricity boards. "International lenders just won't look at SEBs as a viable risk," says one Canadian power executive.

An eventual solution, strongly advocated by the World Bank, is for the SEBs to reform, privatise, set economic and non-political tariffs and install independent regulators. Later this month the pioneering state of Orissa should win final legislative clearance to do just this. But so far only Orissa seems ready to take such politically sensitive steps.

Until further reforms, power analysts believe India will remain a country of vast potential, but with limited immediate promise. No-one foresees a post-Enron opening of the investment floodgates. "You'll see two or three deals closed this year, two or three in '97, maybe three or four in '98," says the director of a UK power group. "It's of that order."

ENRON TO CONTINUE WITH DABHOL ARBITRATION

Enron, the US group leading the $2bn-plus Dabhol power project, will today continue legal proceedings for damages against the state government of Maharashtra, despite declaring it is confident the deal will proceed. Mark Nicholson reports from New Delhi. The state said last week the renegotiated project was to be revived.

However, Enron officials said they had not yet received official notice of the project's revival from the state government and could not cancel the London-based arbitration proceedings until they did. Today's will be the third arbitration hearing to date.

Mr Manohar Joshi, chief minister of the west Indian state, said last week that the project could proceed if Enron cut the project's power tariff to Rs1.86 (52 cents) a unit from an original Rs2.40 and reduced the initial $2.8bn cost of the proposed plant. If so, "the Dabhol issue is settled," he said.

Enron has said that the tariff appears "achievable" and that it had proposed cutting the capital cost of the plant during renegotiations last November. The new deal would see the two-phase plant's net output of 2,015MW rise to 2,184MW but capital costs fall by at least $335m. Enron said it would also spin off the plant's $490m re-gasification plant into a separate joint venture.

However, Enron officials have reserved final judgment until they receive specific details of the state government's offer.

After official state confirmation of the revised deal, the project would still have to secure further financial and environmental approvals from the Indian central government before work could recommence.

China warns UK about Hong Kong boat people

By William Barnes in Bangkok

China yesterday warned Britain it must take responsibility for the entire resettlement and repatriation costs of the 21,000 Vietnamese boat people remaining in Hong Kong.

Mr Cheng Shousan, head of China's delegation to a UN-sponsored meeting on Indo-chinese refugees in Bangkok and deputy director-general of the Office of Hong Kong and Macao Affairs, said: "Hong Kong cannot take on any costs – this is Britain's responsibility."

China reiterated that all boat people must be out of Hong Kong before the 1997 handover of sovereignty. But prospects for resettling the remaining Vietnamese dwindled after demands by the Association of South East Asian Nations that the remaining Vietnamese boat people should be repatriated briskly, with no deals attached.

Asean delegates in Bangkok rejected an American scheme to give all returnees "one final interview" to see if they qualify for resettlement in the US.

Diplomats said the overwhelming opinion at the closed-door meeting was that, 20 years after the end of the Vietnam war, it was time to clear out the 40,000 boat people left in the camps dotted around Asia. Vietnam has been made to understand that if it wishes to remain a member of the association in good standing it must co-operate with the repatriations – at least of the 18,000 Vietnamese in the Asean host countries.

The chairman of the meeting, the United Nations High Commissioner for Refugees's regional director for Asia, Mr Alexander Casella, said: "We're going to speed up the whole process [of repatriation]."

One senior western diplomat at the meeting said: "I would be very surprised if half the number [of boat people in Asia] were not back by the end of the year."

On Saturday, Mr Winston Lord, US assistant secretary of state, admitted last year's proposal by US legislators to screen people in the camps one last time "stopped in its tracks" the international repatriation plan started in 1989, known as the Comprehensive Plan of Action.

Asean's rejection of the US scheme – known as Track Two – to screen returnees in Vietnam might seem contradictory, since it encourages the migrants to go home by giving them the sweetener of a final chance to go to America. However, the western diplomat said: "they [Asean] don't want anything that smacks of a deal – these countries just want them out."

The US must – for internal political reasons – resist any plan that fills TV screens with screaming Vietnamese. Its views have clout because American money funds repatriation programmes. But the US may accept a fudge: the practical difference between Track Two and legal emigration from Vietnam is small.

ASIA-PACIFIC NEWS DIGEST

N-plant sent to North Korea

The first shipload of equipment for use in construction of two light-water nuclear reactors in North Korea left the South Korean port of Pusan yesterday. The equipment is part of a $4.5bn deal signed in Geneva in 1994 between Pyongyang and an international consortium under which North Korea agreed to scrap its graphite reactors capable of making bomb-grade equipment.

The consortium of South Korea, Japan and the US is reported to be running into funding problems amid debate over what role the European Union should play.

Large drilling machines, a mud pump and other equipment needed for a geological survey were loaded into containers on board a Chinese-flagged ship, Yanlong IV. The 1,042-ton vessel was expected to arrive in a North Korean port, believed to be Rajin, tomorrow. The machinery would be taken to Shinpo on the north-eastern coast of North Korea, the site chosen for the two power plants that will be largely South Korean-built, designed and financed. *Reuter, Pusan*

More tourists visit Vietnam

About 1.3m tourists visited Vietnam last year, 20 per cent more than in 1994, the semi-official weekly Vietnam Investment Review said yesterday. The paper quoted General Department of Tourism statistics as showing that foreign and domestic tourists spent about $900m in Vietnam last year, mostly in Ho Chi Minh City (formerly Saigon). About 45 per cent of the city's tourists were foreigners.

Ho Chi Minh City's room occupancy rate last year was about 55 per cent, 10 per cent lower than in 1994, the weekly said. Hotels built by foreign investors and Vietnamese are mushrooming in the city and in Hanoi, the capital. The tourism industry accounts for $4.2bn out of the total $17.7bn in foreign investment approved. Vietnam wants to attract 1.7m tourists this year and 4m by the 2000. *Jeremy Grant, Hanoi*

Australia-Russia space deal

An Australian engineering company and a Russian launch services company have signed an agreement to consider establishing an Australian space launch service, Mr Chris Schacht, Australia's construction minister, said. ASC Engineering has signed a letter of intent with Russia's Scientific and Technical Complex to explore the prospects for a launch service at Woomera in South Australia using the Start family of launch vehicles. *Reuter, Canberra*

■ Australia is set to move into a surplus on its balance of trade well before the end of the decade as a result of increased exports to consumer markets in Asia, Mr Bob McMullan, Australia's trade minister said yesterday. *Reuter, Canberra*

■ India's year-on-year inflation rate, as measured by wholesale prices, fell to 6.02 per cent in the week ended December 30, from 6.28 per cent the week before, the Ministry of Industry said yesterday. *AP-DJ, New Delhi*

Vietnam party chief urges debt repayment

By Jeremy Grant in Hanoi

Vietnam risks becoming a debtor nation and a "wage-earner for capitalists" unless it repays the debt owed to international creditors and increases domestic investment, Mr Do Muoi, the Communist party general secretary, has said.

His comments, carried by the semi-official weekly Vietnam Investment Review (VIR) are the first public demonstration that Hanoi is keen to pay its debts, of which some $800m is owed to commercial creditors. Negotiations over clearing this amount, known as London Club debt, have dragged on for over a year.

However, his remarks also appear to indicate that Hanoi wants to see economic growth funded domestically as well as through foreign capital. "In order to raise capital we must target our domestic resources... Our present slogan must be capital, capital and more capital," Mr Muoi told a high-level meeting in the Vietnamese capital last week. Although he was not specific about where domestic funds would come from, the World Bank has said that one of the country's top priorities this year should be to tap domestic savings.

Mr Muoi said that, unless party officials found ways to mobilise domestic capital, industrialisation and modernisation would remain a dream. "Foreign capital is very important, especially at the present time, but we should always bear in mind that, when we borrow, we will have to repay with many conditions," Mr Muoi said. In December last year, multilateral donors meeting in Paris agreed to extend Vietnam a further $2.3bn in loans to help finance the rebuilding of its infrastructure and to modernise its financial system.

Mr Muoi also rounded on "certain branches of government" for ignoring rural development in favour of financing imports of luxury goods. "We should spare this extravagance and instead help eradicate hunger and reduce poverty," he said.

Although the country's reforms have improved the lives of many in the cities, most people are still locked into low-paid agricultural jobs and have seen few benefits from foreign investment. This is likely to be at the top of the agenda when the party meets for a crucial congress around June.

Party hardliners are known to be particularly concerned before the congress about the social side-effects of economic growth in the cities. Hardly a day passes in Vietnam without some reference in the local media to the need for vigilance against what Hanoi considers the negative side-effects of economic reforms, such as prostitution, drugs, pornographic videos and even karaoke.

Sceptical bear ill-disposed to having claws clipped

John Lloyd assesses a report of uncontrollable 'revolution' under way in a Russia still holding nuclear weapons

To the imaginative or nervous mind, Avoiding Nuclear Anarchy is almost 300 pages of terror. The report by a team of top US scientists presents a case for fear, based on a belief that Russia is undergoing an uncontrollable "revolution", that the country's once all-encompassing security has broken down.

It points to poverty-stricken officials who are demoralised and thus open to extreme temptation – and to the belief that the west has yet to penetrate the resistance of the Russians to co-operation in improving security.

Also, it highlights the indifference of, in particular, the US Congress and the main western governments to the perceived threat.

Some of these fears are not new, but the report, when published next month, is expected to have a profound impact on the nuclear debate in Washington. The presence of a US former assistant defence secretary, Professor Graham Allison, at the head of the research team will give extra weight to the report, which is the most extensive assessment yet of nuclear dangers in the post-cold war world.

The findings come in an election year in the US and Russia, and follow the appointment as Russian foreign minister of Mr Yevgeny Primakov, who has made clear that his policy priority would be to strengthen the country's "great power" status.

In the US, at least one presidential hopeful in the Republican party, Senator Richard Lugar, has made the threat of nuclear incident in a disintegrating Russia a central plank of his bid for the presidential nomination.

The Russian nuclear arsenal, some 45,000 weapons at its height in the mid-1980s, has been undergoing reduction by about 2,000 weapons a year since 1986. Commitments already made would, if carried through, mean a total further reduction of 15,000-20,000 weapons, plus another 12,000-13,000 from the former satellite states and Soviet republics.

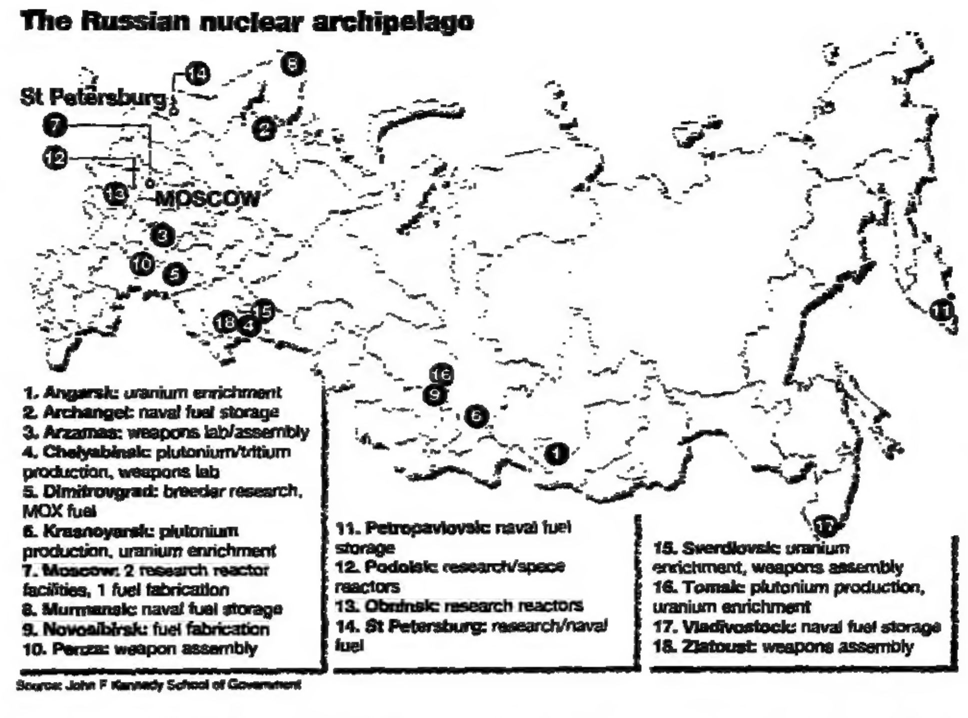
This has meant that huge streams of fissile material pass to and fro, between the tens of nuclear facilities, separated by thousands of miles, which make up the Russian nuclear complex. These join the streams of material which were already passing to and fro for regular refurbishment, plus the largely un-inventoried material stored at research, naval and other facilities. Most of this fissile material, estimated at 1,200 tonnes, about twice the amount in the US, is under the control of Russia's ministry of atomic energy, which is fiercely competitive with the military with which it is supposed to co-operate.

The ministry admits to no oversight by the state agency set up to oversee it and, in the figure of Mr Victor Mikhailov, its minister, is deeply sceptical about western intentions in offering assistance in security.

At the heart of this suspicion, says the report, is the view that the country's nuclear complex "is one of Russia's last legitimate claims to a great-power status, and [officials] are understandably reluctant to admit a humiliating inferiority to the west".

However, other causes are a lack of understanding in Russia of how dangerous the situation is – compounded by a similar lack of understanding in the west. This inability to grasp the dangers inherent in the situation, says the report, results in a US Congress unwilling to vote sufficient funds to overcome the Russian reluctance to co-operate.

The Russian nuclear archipelago



Source: John F Kennedy School of Government

Declarations – including that by Mr Louis Freeh, the US Federal Bureau of Investigation chief, that the issue was "the greatest long-term threat to the security of the US" – have not been followed by urgent action, the report warns. The programmes in place have accepted a pace which would push substantial improvement into the next century.

Hundreds of reports of nuclear smuggling have been publicised, most of them either hoaxes, mistakes or insignificant. However, among these, half a dozen documented cases – and one case admitted by the Russians – show that smuggling is possible, even easy. These show also that demand exists and that Russian borders are porous to a traffic which is difficult to spot.

Even the successes conceal stories of potential terror. The implementation of a secret agreement between the US and the former Soviet republic of Kazakhstan for the former to buy and fly out 600kg of highly enriched uranium from the latter was successful. But it revealed that the stockpile had been "discovered" by Kazakh officials, that its inventory was inaccurate and that it was stored in "distressingly insecure conditions".

A significant part of the report is devoted to convincing the lay reader that transportation is not difficult – the material is not dangerous to the carrier, it is highly concentrated and thus small quantities are valuable – and that Russian and western borders are policed by agencies untrained for nuclear detection.

Further, a simple nuclear "gun", similar to the device which was exploded over Hiroshima in 1945, could be made "relatively easily", once the fissile material were obtained.

The repercussions of successful nuclear smuggling are claimed to be hideous. Those states – the large majority of those in the world – with no plans to acquire nuclear arms would be forced to reconsider, once it were shown that radical states, or substantial terrorist groups, had such arms or were likely to acquire them.

The action called for essentially depends upon an agreement by the US and other governments that the issue is as nightmarish as the report claims it is. Once that has been accepted, they would have to extend present programmes, and develop new ones, with a reluctant and suspicious Russia so as to bring the situation under control.

Avoiding Nuclear Anarchy, by Graham Allison, Owen R. Cote Jr, Richard A. Falkenrath and Steven E. Miller; forthcoming from the Center for Science and International Affairs, Kennedy School of Government, Harvard University, USA.

Syria critical after peace talks with Israel

Syria yesterday criticised Israel's stance in peace talks between the two countries as Mr Warren Christopher, US secretary of state, wound up his latest shuttle diplomacy in the Middle East, AFP reports from Damascus and Reuter from Jerusalem.

Mr Christopher, ending four days of talks in Syria and Israel, said on Saturday he was leaving the region "more convinced than ever" that the two countries were "determined to do the hard work necessary to reach a comprehensive peace this year".

However, Syrian radio said yesterday: "It is clear that Israeli leaders have no intention of implementing the principles of peace, and are sticking to the formula of former prime minister Yitzhak Rabin, linking the scale of a withdrawal to the nature of the peace." No such formula existed in UN resolutions on the Arab-Israeli conflict, the radio said in a commentary.

The radio's tone was in marked contrast to the generally positive Syrian commentaries since Mr Rabin's assassination on November 4 and the appointment of Mr Shimon Peres to succeed him.

Syria's key demand in peace talks is the full withdrawal from the Golan Heights, which Israel seized in 1967 and annexed in 1981. However, Israel wants Syria to agree to a "warm" peace with economic ties and the opening of borders before committing itself to a full pull-out.

"Israel is hostile to real peace and UN resolutions because it wants to keep [occupied] land and impose its hegemony over the region," state radio said. The commentary came after Mr Christopher's mission and the announcement that Israeli and Syrian negotiators would resume peace talks outside Washington on January 24, to include military experts.

INTERNATIONAL PRESS REVIEW

Naming names of men in the twilight

ISRAEL

By Julian Ozanne in Jerusalem

His name was widely publicised on the Internet and in foreign publications, and scrawled on walls across the Holy Land in graffiti. But, for the 10 months that Mr Karmi Gilon served as head of Israel's Shin Bet, the internal secret service agency, citizens were not formally told his identity.

Israel's tough censorship laws forced newspapers to refer to Mr Gilon as *Kaf*, the Hebrew initial of his first name. When he resigned last Monday, *Mabat*, the evening news on state-run Channel One television, aired a biography without giving his name.

Mr Gilon's resignation last week stirred debate about secrecy and censorship, and appeared to end in a partial victory for freedom of information when the government allowed newspapers to reveal the name of his successor.

Newspapers carried several pictures of Mr Gilon, for example, attending the graveside of assassinated former prime minister Yitzhak Rabin, with his faced either blacked out or blurred.

On Tuesday, the government appointed Rear-Admiral Ami Ayalon, recently retired naval commander, as successor. On Wednesday, the liberal daily *Haaretz*, with two other dailies, published the admiral's name, in an apparent breach of censorship regulations. The taboo had been broken and all the press had followed the *Haaretz* lead by Thursday.

"The period in which this organisation worked in the twilight zone has passed," said Mr Hanoch Mamari, *Haaretz* editor-in-chief. "There is a public interest. From a public standpoint, even if the organisation is secret and its people unidentified, the head of the organisation must be disclosed."

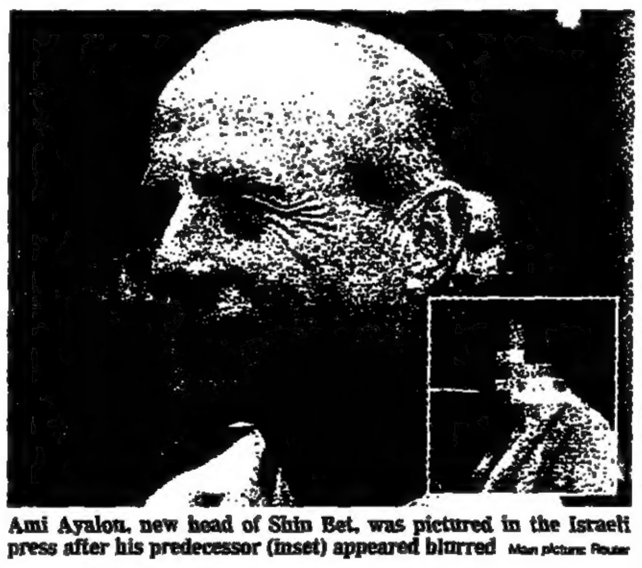
But Israelis had still not completely stepped out of the twilight zone. They knew the name of the incoming Shin Bet chief, but still did not fully know the identity of Kaf. Israeli newspapers continued to hold back from publishing his name until the *Washington Post* in the US had revealed his identity on Wednesday. On Thursday, Israeli newspapers then quoted the Post.

Haaretz even published the Post story with sentences about Mr Gilon's possible address blacked out, presumably on orders from the military censor.

Then, yesterday, *Haaretz* published a full and clear picture of Mr Gilon on its front page, although again relying on foreign media by using a *Reuter* agency picture.

However, victory for the public interest is only half-won. Rear-Admiral Ayalon has vowed to keep well away from the media. As naval commander, he once told the army magazine *Bamahane*: "We are not in the headlines – that's testimony to our success."

But the Kaf affair has probably opened a door which will be difficult to shut. *Maariv*, a daily tabloid, joined other newspapers on Thursday in an editorial calling for legislative reforms on censorship. The naming of Rear-Admiral Ayalon, it said, "has made a mockery of the prohibition on publishing the name" of the head of Shin Bet.



Ami Ayalon, new head of Shin Bet, was pictured in the Israeli press after his predecessor (inset) appeared blurred Main picture: Reuter

Reforms in the law, supported by many Israelis, would extend the normalisation of Israel's security services through the Middle East peace process. "Anyone who talks about a new Middle East, completely different from the past, can also build a new secret service which will integrate itself into the peace process," a respected *Maariv* columnist said last week.

Mistrust abides down on the farms in Iowa

Patti Waldmeir finds a US state running its rule over Republican presidential hopefuls

Many Iowans, like many of their compatriots across the US, complain of betrayal. They speak of trust, in their government and its leaders, and how that trust has been lost in an atmosphere of political bickering and fiscal indiscipline.

Iowans listened on Saturday as nine men who aspire to be president on behalf of the Republican party promised various antidotes for the malaise: a balanced budget, a flat income tax, a siege economy, tougher morality. But the signs are that most Iowans do not believe any of them is up to the job. With sad resignation or righteous resentment, they complain of leadership failure.

Some Republican Iowans, in the days leading up to the candidates' weekend debate in front of the local party faithful and television cameras, believed they had found a politician to believe in. An elderly farm store owner and his sister fervently approved the gospel of economic nationalism and social ultra-conservatism of Rev Pat Buchanan, candidate of the religious right. And there was an over-taxed suburban couple who chanted the flat-tax mantra of Mr Steve Forbes.

Some Republicans promised to attend their local "caucus" elections on February 12 to choose a presidential nominee, lukewarm support for individuals or not, agreeing it was a matter of state pride and civic duty to attend.

Iowans cherish their traditional position as the first Americans to vote in the candidate selection process – they cherish it so much that, when Louisiana announced its intention to vote before Iowa, the Iowa Republican party forced most candidates to forswear the other state's poll. But their keenness to vote is scarcely matched by a fervour about the candidates.

Instead, in conversations in rural diners and urban coffee-houses, on hog farms and grain farms, and in town hall meetings, there was resignation and resentment at the condition of both politics and politicians. In 1994, that resentment – of "politics as usual" – drove the Republicans to big gains in Iowa in the mid-term congressional elections which brought a new radical conservatism to the federal Congress. Now, faith in that revolution, too, has faded, and with it the passion and anger which had fuelled the Republican gains. Iowans voted for a quick fix; what they got was federal paralysis.

As hog farmer Mr Craig Hill puts it: "A year ago, I would have said that the Newt wave [Speaker Newt Gingrich and his band of radical freshmen Republicans in the House of Representatives] would be recorded as one of the biggest turning points in the political history of this country. But now, gosh, we just haven't got much done. Can we really do anything?"

That sense of near-impotence – that feeling that the federal government in Washington defeats all efforts to control it, reform it, and generally shrink its influence – crosses party lines in Iowa. The resentment it generates is focused powerfully on one issue: the federal budget and the failure of politicians to get it into balance.

Democrats and Republicans put balancing the budget at the top of their national political wish list for 1996 – a figure confirmed by countrywide opinion polls which show the budget deficit as the political problem most often mentioned by respondents.

It is a simple idea which easily and understandably seizes the imagination of Iowans, a frugal people, descendants of a strict prairie Protestantism. Iowa is a linear state, where all the highways run at right angles and where all the cornfields are exactly square. Balancing the budget is an idea with the same strong, clear lines that Iowans approve.

But the idea of a balanced budget also raises distrust. Many an Iowa pig farmer will tell you that no successful large farm can be run without debt. Yet Iowans do not trust their national leaders to borrow wisely; they firmly believe that Washington will, unless restrained, bankrupt their children with unrestrained debt. As they make colourfully clear, they do not trust their political leaders to run a pig farm.

Mr Dave Hassebrock, a young Republican who farms hogs and grain in central Iowa, and who says giving money to politicians is "only one step above burning it", proudly draws a down-home parallel with the weaning of a young hog: "There's a lot of bellowing and squealing that goes on, and that's what's going on now in Washington DC."

There will be a lot more "bellowing and squealing" before this election year, which began at the weekend in Iowa, draws to a close in November. Iowans are still hoping that they can save politics from the spectacle of much bickering. As Mr E.J. Giovannetti, mayor of the suburban community of Urbandale, reflects: "There is a dire search for a hero."

Argentine president aims at 2003

Menem to seek third term at top

By David Pilling in Buenos Aires

President Carlos Menem of Argentina intends to seek a third presidential term, from 2003, when he would be aged 73. But he intends to respect the constitution by not running for re-election in 1999.

In an interview published in the newspaper Clarin yesterday, Mr Menem sought to dispel rumours – encouraged by a rash of "Menem 1999" posters and T-shirts – that he would try to amend the constitution again so as to allow him a third presidential term. In 1994, he paved the way for his re-election last year to a second term by having the constitution changed.

Politics being the art of the possible, Mr Menem did not rule out the feasibility of running again in 1999, but said he would prefer "to rest for four years... and then try to return in 2003." Besides, he said, Argentines "would not tolerate" a third successive term.

Mr Menem also raised the possibility of Mr Domingo Cavallo, economy minister, succeeding him at the presidency. "This seems an excellent idea," he said, conceding that this would mean Mr Cavallo leaving his post next year to begin campaigning.

The president's backing of a possible Cavallo candidacy marks an important rapprochement between Mr Menem and his economy minister. Last year, Mr Cavallo came close to losing his job after a serious feud with the president had been set off by Mr Cavallo's allegations that mafias were operating within the president's Peronist party.

Mr Menem said his economy minister had "calmed down" since those allegations, and had become "much more serene and reflexive", overcoming the "unreasonableness of his character". Officials admit that Mr Cavallo has been instructed to maintain a lower profile.

Allegations of corruption were revived last week when Mr Gustavo Beliz, former interior minister, defected from the Peronists, alleging the entire party structure was corrupt. Mr Menem yesterday demanded Mr Beliz justify such accusations – he "should offer evidence and give the names of corrupt officials".

Mr Beliz, whose defection has created turmoil within the government and the opposition, implicitly accused Mr Menem of presiding over corruption by saying: "In a presidential system as strong as this one, responsibility naturally comes from the very top."

Steel output in Europe, US and Japan 'to fall'

By Stefan Wagstyl, Industrial Editor

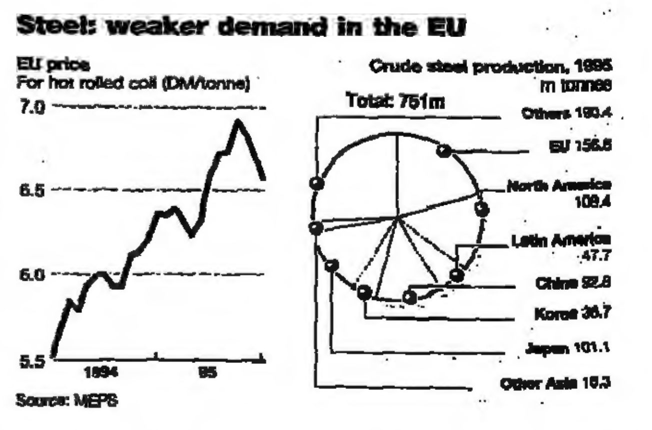
Steel production in Europe, the US and Japan is likely to fall by 5 per cent this year, as mills cut output to cope with declining growth in demand, according to a leading forecaster.

But the decline will be offset by growth in developing countries in Asia, notably South Korea and China, so global steel output will stay unchanged at about 751m tonnes, says MEPS (Europe), a Sheffield consultancy.

British Steel, the UK producer, says it expects strong demand from China and other Asian countries, and from central Europe, to compensate for weaker growth in the EU and North America.

Steel industry executives, polled last week by Metal Bulletin, the trade newspaper, said that, while demand remained weak in Japan and the EU market was affected by excess stocks, developing nations were generally looking forward to further expansion.

Steel: weaker demand in the EU



Source: MEPS

MEPS believes demand in the developed world will be sluggish because users, which started cutting orders in the first half of 1995 to reduce warehouse stocks, are likely to continue running down their inventories in the first half of 1996.

Steelmakers have been hit by the slowdown in car production in the US and Europe and are suffering from weak demand for construction steel in some developed countries.

But, once the adjustments in production and stock levels are completed, probably in the first half of the year, there could be a partial recovery in demand and output in the second half of 1996, says MEPS.

It expects Chinese output to rise nearly 3 per cent to 95m tonnes.

It also forecasts modest increases in output in eastern Europe, where local demand is firm, and in the former Soviet Union, where mills have tried to boost exports, particularly to east Asia.

Mr George Charalambides, steel service manager at WEPS, a US consultancy, says producers should not be too despondent at the flat outlook for 1996 because 1995 was an exceptionally good year for many mills.

DECISIONS, FRIENDS AND MONEY. HOW TO MAKE THEM.

Running a big business is exciting, challenging – and lonely.

It's not just a question of making the difficult decisions, the ones crying out for an answer.

You've also got to cope with the messy, hard-to-get-your-arms-around issues. After all, if you don't make them a priority, they'll just slip through the cracks.

This week, we'll be offering thoughts on some of these issues. At the end of the process, we hope to have put forward some fresh ideas about the role corporate advertising can play in your company's plans. But even if you aren't persuaded, these are issues that deserve a moment's attention.

For example, how do you build and sustain the trust in which a company is held – by customers, workers, suppliers, regulators and the public at large?

Trust pays off, in any number of ways. In the day to day freedom to set your own pricing, with a bit of elbow-room against the competition; in the ability to get your point of view across to the public or with government.

And if, heaven forbid, you're caught up in some serious problem, trust buys you the time and opportunity to set it right.

But trust isn't something you can create overnight. Tomorrow in this space, we'll offer some perspectives on how companies can build and retain trust.

Trust is one of the indefinable ingredients that make it so hard to tackle the issue of shareholder value. Consultants, stock market analysts and, yes, the press sometimes make it seem so easy. Cut here, acquire there, then tell the world about it.

But cutting the wrong things can deal a weak business a death blow. And too many companies have been wrecked by a high-priced acquisition that once looked a neat strategic fit.

On Wednesday, we'll be examining how companies committed to enhancing shareholder value can make sure the world realises what they're doing.

One way a company creates wealth for its shareholders, its employees, and its business partners is by differentiating itself and its products from their competition.

That's where the problems start. How do you build a corporate image that's distinct from the branding of individual products, but close enough to allow consumers to associate the two? And how do you prevent image problems in one product infecting others through the mechanism of the corporate brand?

In this space on Thursday, we'll be talking about how companies can set themselves apart from their competitors.

The FT's interest in these issues is straightforward: all of them raise questions of communication. And that, after all, is our business.

If you have any comments on the questions this series raises, or you'd like to talk about the issues of communicating the corporate message, either write to John Makinson, Managing Director, Financial Times, at 1 Southwark Bridge, London SE1 9HL or call him on +44 171-873 3233. Fax: +44 171-873 3937. E-mail: John.Makinson@FT.com.

Financial Times.
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This is the first of a series. Tomorrow: trust.

Internet threat to telecoms 'underestimated'

By Alan Cane

Major telecommunications operators underestimate the threat from the Internet, the global computer communications system, according to Durlacher, the London stockbrokers.

It says technical developments could leave the operators with an obsolete network worth only the scrap value of the copper in the ground. The paradox is that although operators, including British Telecommunications, should dominate the transmission of traffic on the Internet – the "information superhighway" – they are failing to do so because they are poorly structured to exploit the new technology.

"Their greatest difficulty is that telecoms operators run business based on charging for the cost per unit of time used," Durlacher says. "The long-term marginal costs associated with local calls is now, however, heading towards zero. In the future charges will be made for content that is accessed rather than the cost of moving the material from the host machine to the users."

Durlacher's views are contained in a 190-page report which claims to be the first substantial European orientated study of the Internet. It says that European operators are proving slow to react to the challenges thrown up by a network where commercial subscriptions are growing at more than 100 per cent a year and which should lead to more than 200m Internet users by 2002.

The UK market alone will grow from £35m ($53.9m) in value in 1995 to more than £900m by the turn of the century. These challenges include the arrival of software allowing long-distance, two-way voice conversations for the cost of a local call, the possibility that cable companies may become the chief beneficiaries of Internet growth because cable has the capacity to deliver Internet traffic at high speed and the arrival of wireless transmission to office and home.

Durlacher thinks this could cause the greatest change in the supply of Internet services arguing that new entrants to the market could not afford the cost of installing and maintaining a conventional network. "If the majority of these costs were removed by the use of a new technology, a whole new raft of suppliers would consider it viable to enter the market," it says. "Once it is possible to ensure security by encrypting broadcast calls, the telecoms operators will be left with an obsolete system, of no obvious value, other than the recycle value of the copper in the cables."

Durlacher says that BT and other European operators have been singularly unsuccessful in launching Internet services. BT had been providing a basic but expensive text service which was neither ambitious enough for enthusiasts or simple to use for beginners. "As the more successful providers are showing, it is precisely by offering the cheapest route onto the net that the largest market can be built," says the report.

Media Futures, Page 11

Labour leader in single currency referendum hint

By Robert Shrimsley, Political Staff

Mr Tony Blair, leader of Britain's opposition Labour party, yesterday gave his strongest indication yet that Labour would offer a referendum on whether to join a European single currency.

Asked in a television interview about a referendum on a single currency, Mr Blair said there was a "very strong case" for one if it were not a clear issue in the general election.

"I think that our position, and I think the government's increasingly as well, is that there should be the political consent necessary for such a big step," he said.

Mr Blair also moved to reassure business that his much-trumpeted plans for a "stakeholder economy" were simply a "slogan" and not a return to old-style corporatism.

The Labour leader said: "I have no intention of tying companies up in red tape, bureaucracy and regulation."

Labour was concerned with asking how businesses could treat "employees as partners rather than simply factors of production: I can't legislate for that".

Mr Blair said successful companies were already treating their staff as stakeholders. "The sensible company today realises that it is not just about its shareholders, important though they are, it is also about its employees and the community in which it operates.

"It is important we have a notion of responsibility among the company. It is not something driven through by legislation but something that we encourage."

For the Tories Mr Brian Mawhinney, party chairman, retorted that for all his rhetoric Mr Blair was committed to legislation and regulation because he supported the minimum wage and the European social chapter.

The UK music industry will launch a campaign next month to encourage young people to vote in the next general election, *Alice Rawsthorn writes.*

"Rock the Vote" will be modelled on a successful US initiative of the same name.

Endorsed by the three main parties, the £1m ($1.54m) UK campaign will be apolitical, aiming to persuade 5.2m 18- to 24-year-olds to register and use their vote.

Rock the Vote will be chaired by Mr John Preston, president of record company BMG and a close friend of Mr Tony Blair, the Labour Party leader.

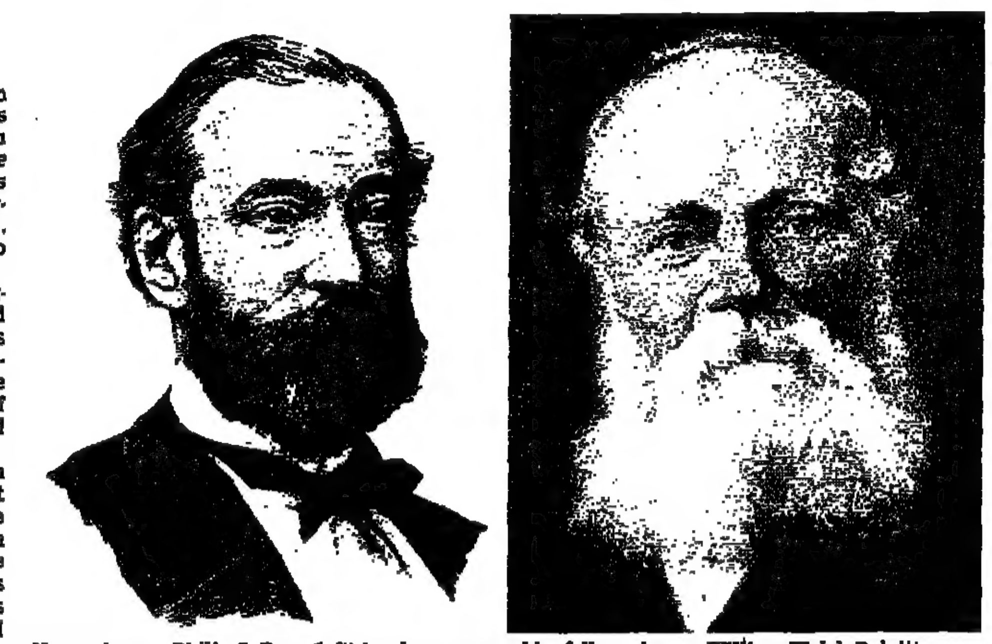
Deloitte returns to Big Six

By Jim Kelly, Accountancy Correspondent

The accountancy profession today welcomes back one of its founding fathers, William Welch Deloitte, to the elite group of pioneers whose names grace the Big Six firms. Unfortunately, to make room, another has been consigned to obscurity.

Touche Ross, the sixth biggest UK firm, will today send out 60,000 letters telling clients and contacts that from February 1 this year it will become Deloitte Touche. The name of Philip S. Ross, the "candid Scot", will be dropped.

The Deloitte name has been donated by the UK's biggest firm Coopers & Lybrand. While sentiment has played a part in the decision, it reflects the efforts of most of the big firms to serve multinational clients under a single global brand name.



Name change: Philip S. Ross (left) has been usurped by fellow pioneer William Welch Deloitte

Touche Ross is part of a world-wide organisation of accountancy firms and companies called Deloitte Touche Tohmatsu. When Deloitte Haskins & Sells merged with Touche Ross around the world in 1989, the UK was the exception – Deloitte chose to join Coopers instead.

Coopers stopped using the name Deloitte in June 1992. Touche Ross tried to buy it back earlier but with no success. Now there is little point trying to keep the name – Deloitte partners and their clients are firmly identified with their new firm. In any case, Coopers would have had to give the name up in January 1 1997 under an agreement between the two firms.

Touche Ross looked odd as the UK member of a global organisation with a different name. Now the link has been made clear.

Deloitte Touche Tohmatsu, fifth of the Big Six in global terms, with a combined fee income of $6bn in 1994-95, audits 20 per cent of the world's biggest companies with sales or assets in excess of $1bn. The UK firm's management consultancy arm will practise as part of the transatlantic Deloitte & Touche Consulting Group.

The use of a name without any apparent legitimate reason other than to acquire a world brand name may be criticised by the purists – but marriages made with strangers can last. The romantic career of Philip S. Ross is a case in point.

Ross, known to the 350 partners of the firm which bore his name as forthright and spare with words, emigrated to Canada but in 1856 wrote to his minister in Scotland instructing him to propose marriage to three women on his behalf. Any one would be acceptable.

The third said yes and sailed to Portland. Ross married her within half an hour of her arrival, having rowed out to meet the ship. The best man missed the ceremony and remarked: "Well, you are the man for business." The couple celebrated their golden wedding anniversary in 1906.

Deloitte's name is more firmly associated with the founding of the profession. He founded Deloitte in 1845 in London and during a long career developed a system for keeping the accounts of the railways, which survived until the 1950s.

When he retired aged 79 he was considered the oldest practising accountant alive. Now, in the guise of Deloitte Touche, he has a second life.

UK NEWS DIGEST

MPs to launch lottery probe

A full inquiry into the workings of Britain's hugely-successful National Lottery is to be launched by a Commons committee.

Mr Gerald Kaufman, the chairman of the national heritage select committee, said yesterday that the full scope of the investigation had not yet been decided. But it is likely to take in issues such as the size of the jackpot, the distribution of money and the level of profits for operator Camelot.

It may also examine the work of Mr Peter Davis, the lottery regulator, who has come under fire for accepting free flights from a member of the Camelot group.

The review follows a sustained chorus of concern from critics of the lottery about the scale of winnings and the way money has been distributed to the arts and other good causes.

MPs will be aware that the lottery has proved staggeringly popular and that the evidence from last week's rollover jackpot of £42m ($64.68m) suggests that the public is clearly in favour of such high prizes.

Meawnhile, Labour announced that it is setting up its own group to study ways to improve the lottery. Mr Jack Cunningham, the shadow heritage secretary, said he would be looking at the management of the lottery, profits made by Camelot, the problem of under-age gambling and the social and economic effects of the lottery.

Labour has already said that when Camelot's contract to run the lottery expires it should be awarded to a non-profit making body. *Robert Shrimsley, Westminster*

Overseas aid to be redirected

Britain is set to phase out overseas aid to the Caribbean, Latin America and south-east Asia under plans to be announced next month.

A fundamental review of spending by the Overseas Development Administration has concluded that too much of its £2.15bn ($3.31bn) budget is spent on small bilateral aid projects. Instead it recommends focusing more of the £1bn devoted to bilateral aid to the 20 nations, mainly in sub-Saharan Africa and the Indian sub-continent, which already take about 69 per cent of the funds.

With an increasing proportion of funds devoted to multilateral aid the review argues that the bilateral aid project must be more accurately targeted at the most needy regimes.

The review is likely to see the top 20 nations' share of bilateral aid rising to as much as 85 per cent over the next few years. This could cost the remaining nations up to £150m in aid projects. An ODA spokesman stressed it would be a "graduated" reduction and added: "It should be pointed out that getting countries off aid is considered a good thing".

Robert Shrimsley

Business backs time change

Three-quarters of companies want to change to western European time, according to a survey of members by the Confederation of British Industry.

The move would mean moving clocks in the UK one hour ahead throughout the year, extending evening daylight but making it darker in the mornings. The survey showed marked regional variations in attitudes, with 84 per cent of businesses in the south in favour of time harmonisation but 72 per cent of Scottish companies against.

Mr Adair Turner, the director-general of the CBI, said most companies would welcome harmonisation with the rest of western Europe as a boost to competitiveness and business efficiency. But he said that the government would, in introducing any change, have to recognise the practical difficulties involved for some sectors of industry and for some regions.

Lloyd's Motor Underwriters Association, whose members claim to be the largest insurer of motor vehicles in the UK, are backing the proposed legislation. *Michael Cassell, London*

Rebel to rejoin Tory fold

Sir Richard Body, the last remaining whipless Conservative Euro-rebel, offered a much-needed boost to the government yesterday when he said that he expected to return to the party fold in the very near future.

Such a move would be a fillip to the Tories, preventing their majority slipping to one, if as expected they lose the two imminent by-elections.

Tory business managers – who have been negotiating with Sir Richard for months – believe he is close to retaking the party whip. Yesterday the veteran Eurosceptic said he was still negotiating, but added: "It should be pretty soon now."

The news will come as a welcome respite for Mr John Major after a disastrous period last week which saw a renewal of leadership speculation following Baroness Thatcher's devastating attack on his policies and on "one-nation Tories".

Political Staff

Boost for engineering optimism

Companies in Tyneside, north England, particularly in engineering, are optimistic about business conditions, says a survey commissioned by Tyneside Training and Enterprise Council from Northumbria University's Northern Economic Research Unit.

The survey, based on a sample of 112 businesses across all sectors and employing nearly 18,000 people, says around a third were more confident about business prospects than six months ago: 75 per cent expected activity to improve or stay the same, with 25 per cent anticipating a downturn.

Half of engineering respondents said the volume of their order book was higher than six months ago.

Chris Tighe, Newcastle upon Tyne

Ulster arms panel on schedule

The international disarmament commission on Northern Ireland led by former US Senator George Mitchell will meet the Thursday deadline for a report, officials confirmed last night. Talks with Unionist MPs in Belfast followed by another meeting with Sinn Fein in Dublin today will more or less wind up the major part of the consultative process.

Only then will the three-man panel sit down to prepare recommendations which will aim to take the gun out of Irish politics and signal which direction the stalled peace process should take next.

Press Association News

Sale 'threatens rail information improvements'

By Charles Batchelor, Transport Correspondent

Rail privatisation threatens to thwart plans by British Rail and Railtrack to improve passenger travel information services, according to managers involved in the project.

Fragmentation of rail services arising from privatisation means some private companies acquiring train operating franchises intend to establish their own information systems.

With only 30 per cent of rail journeys involving travel on trains run by more than one company, many operators may not be willing to invest in a network-wide information system for passengers.

The management team which has acquired the London, Tilbury & Southend line franchise intends to create its own automated information system. Stagecoach, the bus company which has taken over South West Trains, says it is unaware of BR's plans.

There is strong political pressure for improvements in the existing system because the government has been embarrassed by evidence of poor service. Proposals from the Informed Traveller initiative are due to be put to Sir George Young, transport secretary, later this month.

One proposal is expected to suggest the creation of a separate company for the national passenger information system, which would sell its services to train operators.

British Rail, Railtrack and Mr Roger Salmon, the franchising director, have spent the past two years working on plans to modernise computer systems and on streamlining the way in which timetable information is collected.

But expanding telephone answering capacity could cost at least £25m ($38.5m), while providing "real time" train information on platforms could cost £250,000 for each station.

"It would serve no purpose to improve the accessibility of the telephone inquiry bureaux because under the present system this would only result in more callers being given the wrong information," said one manager involved with the project.

Printed rail timetables have proved no more reliable. The 1995 winter timetable, the first produced by Railtrack, had to be reprinted because of the number of errors.

Combined bid reunites British Rail's three heavy haul divisions

US company to run rail freight

By Charles Batchelor, Transport Correspondent

The US railway company which last month took over the operation of the royal train and Royal Mail train services yesterday emerged as the successful bidder for British Rail's heavy haul freight business.

Wisconsin Central Transportation paid £225m ($346.5m) to acquire BR's three Trainload Freight businesses, beating a rival bid from Omnitrax, another US railway company which had formed a consortium with the management of Loadhaul, one of the Trainload Freight businesses.

Mr Ed Burkhardt, Wisconsin president, said he intended to cut costs, partly through reducing the 7,500 workforce and by merging the head offices of the three companies and Rail Express Systems, which operates the royal train. Wisconsin also plans to put pressure on Railtrack, which owns BR's track and signalling, to reduce track access charges.

Wisconsin intends to revive the business of moving single wagon loads for customers, a business which BR withdrew from in the 1980s because it was lossmaking. "If you are going to drive up the total freight market share of rail you have to increase the amount of single wagon business," said Mr Burkhardt. This would involve reopening disused sidings and marshalling yards. In the US, 80 per cent of Wisconsin's business involves single wagon shipments.

The government split BR's Trainload Freight business, which moves cargoes of coal, steel and aggregates, into three separate companies 18 months ago to promote competition but later reversed this decision and said it would accept bids for all three companies together.

The decision to reunite the businesses prompted concern among some customers of rail freight that they will have to pay higher charges or that the service would not improve. The government believes rail freight already faces considerable competition from road haulage and other private freight operators which are also allowed to run trains on the network.

Wisconsin operates 2,800 miles of freight railroad lines in the US. The company, which is based in Rosemont, Illinois, acquired a large stake in the newly privatised operations of New Zealand Rail in 1993. It made a net profit of $36.7m on turnover of $211m in 1994.

The Trainload Freight companies made a net profit of £64m on turnover of £559m in the year ended March 1995.

The three companies are Loadhaul, covering the north-east of England, with sales of £174m, Mainline Freight in the south-east with £193m turnover, and Transrail Freight in the west and north-west with turnover of £192m. The managements of all three Trainload Freight businesses had originally made bids.

THIS WEEK

Santer takes time circling the basket

DATELINE

Brussels: European President Jacques Santer may benefit from the shrewd counsel of a New Year letter, writes **Lionel Barber**

In one week's time, the Santer Commission will be one year old. How is the team doing? Here is Chancellor Helmut Kohl, a recent critic, who offered his thoughts in a New Year message to President Santer.

"Lieber Jacques! So, our plan worked. All those people who thought I was hammering the Commission at last month's summit in Madrid got it wrong.

"My goal was to strengthen your authority in the run-up to this year's inter-governmental conference. We both know how unpredictable our friend is in Paris, and John M. may not last the year. I believe the Bonn-Brussels axis is central as we drive forward to a united Europe. Forgive me, then, if I offer you a few words of friendly advice and encouragement for 1996.

"Dear Jacques, the joke is that you are only primus inter 20 prima donnas; but, seriously, some of your fellow Commissioners are crying out for the firm smack of leadership. Just thinking about Frau Bjerregaard's Brussels diary makes me splutter. As for Neil Kinnock and his thoughts on eastern enlargement and monetary union, I wonder sometimes whether his horizons stretch much beyond the Welsh valleys. Therefore, I am delighted that you and Commissioner Yves-Thibault de Silguy are setting up next week's conference on Emu in Brussels. De Silguy is a bright fellow, but we must guard against excessive enthusiasm. I have told Hans at the Bundesbank to keep up the tough talk on the convergence criteria. Otherwise we can all say Auf Wiedersehen to the Euro.

"Looking back, I'm delighted with the performance of Monika Wulf-Mathies and Franz Fischler. (Let's leave aside Martin Bangemann: it's hard to see how such a big man could be so invisible!) Monika and Franz are the work-horses in your team. They're decent and competent with first-rate teams steering the most sensitive policies. Without reform of the common agricultural policy and regional aid, eastern enlargement will fail, but we must reform by stealth.

"The two other heavyweights are Karel van Miert and Sir Leon Brittan. Karel is clamping down on cartels, and he squeezed us on the France Telecom/Deutsche Telekom Atlas joint venture. He plays the Brussels press like a violin.

"Sir Leon is also a *mediameister*. Occasionally, I ask myself whether he's itching for a bigger job, particularly after he flirted with the Nato vacancy. But you cannot keep a good man down. The interim deal on financial services liberalisation was crucial, and his action programme on transatlantic co-operation looks promising. His test this year is to make the US and Asian strategy work.

"I am not so sure about some of the 'Club Med' Commissioners. The two Spaniards – Manuel Marin and Manuel Oreja – need watching. Manuel M. is as canny as ever in collecting money for Spanish causes. His latest gambit is to use EU aid to push reform in Cuba, but are the Americans on board? Manuel O. is bright but a bit of a windbag, especially when it comes to talking about the IGC. Joao de Deus Pinheiro, the Portuguese, is handicapped by his interest in golf – but he has an important trade brief with South Africa.

"I am more impressed with Gregor Papoutsis, the Greek who handles energy and tourism, and his chief of staff. They almost pulled off a deal on energy deregulation at end of 1995. It may not amount to much, but the monopolists in France and Germany are to blame for the delay. As for the Italians, Mario Monti is super-intelligent. Give him credit for pushing a frontier-free Europe and for sacking that uppity Englishman who headed the VAT section; but he needs to be less sensitive about press criticism.

"Mario should take a leaf out of Emma Bonino's book. She was probably the star in your team in 1995, a

rent-a-quote radical who clocked up more frequent flier miles than Amelia Erhart. She even managed to make the turbot war with Canada sound glamorous, and her humanitarian work in Rwanda and Burundi was admirable. The other impressive debutant was Erkki Liikanen, the Finn who handles the budget. He and Anita Gradin, the Swede, are slowly changing the Commission's spendthrift habits.

"Three Commissioners remain a mystery to me. Padraig Flynn, the twinkling Irishman in charge of social policy. Surely someone will spot the gap between what he says and what he actually delivers. Edith Cresson is struggling to make her mark in Brussels; but she's a lot savvier than many of her colleagues. Hans van den Broek took his eye off the enlargement dossier, worrying about the Americans sidelining the EU in the Balkans. But he should do better in 1996.

"As for you, dear Jacques, you will be judged by three subjects: enlargement, the IGC and Emu. Two out of three and you're a hero.

"You like to describe yourself as a basketball player, waiting for the right moment to shoot. Fine, but don't run out of time."

FT GUIDE TO
THE JAPANESE SUCCESSION

Why has the Japanese government changed yet again?
Mr Tomiichi Murayama, a socialist former fishing union official who made no secret of his dislike of being prime minister, decided to call it a day, after 18 months in the job. He was tired of being a puppet of the party which controlled his coalition, the conservative Liberal Democratic Party, whose president, Mr Ryutaro Hashimoto, succeeds him.

What does it matter to the rest of the world?
Japan is still the world's second largest economy and its largest creditor nation. The hands at the controls affect anybody who trades with or borrows from a Japanese company.

Is the new government any-different from the old one?
A bit. An LDP man is back on top for the first time since the party was thrown out of government in mid-1993 by an electorate fed up with the pork barrel politics that had evolved under 38 unbroken years of LDP rule. But it is the same disparate three-partner coalition as last time: the LDP plus the centre left Social Democratic and New Harbinger Parties.

Will the new prime minister have a better chance than his ineffective predecessor of tackling Japan's economic and financial problems?
That's unfair on Mr Murayama. He did pretty well, getting agreement on a rise in sales tax in April 1997, overseeing the biggest reform to the electoral system since 1925, and delivering the biggest public works spending package in Japanese history. But Mr Hashimoto will, like Mr Murayama, need to keep coalition partners happy. So the policy muddle, in areas like the need to allocate more public money to the ailing small banks, may persist. Mr Hashimoto will meet problems at once with an unpopular plan to use public cash to bail out housing loan companies.

It all sounds like a bit of a mess. Who is really in charge?
That's a tough one. Until a few years ago, Japan was run by the so-called "iron triangle"; efficient collusion between bureaucrats, top companies and the LDP. That system has now collapsed.

Business distanced itself from the LDP after it fell from power in 1993 and the LDP itself is split along generation and new faction lines. The bureaucracy, especially the powerful finance ministry, is under fire for alleged corruption and mismanagement. The LDP's return to power, at the head of another wobbly coalition, does little to change that state of affairs.

Haven't you ducked that last question?
Sorry. Government has become more fragmented during the past few years, but there are people and groups who exercise more power than most, generally from behind the scenes. Look out for the chief cabinet secretary, Mr Seriko Kajiyama, who is Mr Hashimoto's senior in the LDP and a brilliant political strategist. Observe the new top bureaucrat at the finance ministry, Mr Tadashi Ogawa, but don't pay too much attention to the finance minister, a socialist with no cabinet experience.

This is the fifth Japanese government in three years. Why?
No clear winner has yet emerged from the post-1993 melée. The LDP does not have enough members of parliament to govern without the help of its former foes, the socialists. The opposition – mainly composed of ex-LDP heavyweights – has still to get its act together, under a tough new leader, Mr Ichiro Ozawa. It may even split.

How long will this government last?
Up to six months. Mr Hashimoto has promised his coalition partners to try to keep going until autumn. But Mr Ozawa hopes to bring him down early by exposing Mr Hashimoto's responsibility, as a former finance minister, for the housing loan companies' collapse.

Will the next government, after this one, be any better?
It will probably be another coalition. But it may have a stronger popular mandate than this one because it will, unlike this government, very likely be formed after a general election. Constitutionally, Mr Hashimoto does not have to hold one until July 1997. But he cannot afford to ignore growing public pressure. The last three changes of government were palace revolutions, decided by a vote of members of parliament.

Does the new generation of Japanese leaders represent change?
Yes, but only a bit. Mr Hashimoto and Mr Ozawa are more outspoken and have clearer policy manifestos than their predecessors. Yet their roots are traditional. They both began as disciples of the late former prime minister Kakuei Tanaka, who perfected the LDP faction system. Mr Tanaka was an exemplar of old style money politics. Only by dying in late 1993 did he escape prison for bribery.

Mr Hashimoto has deep respect for the bureaucracy and the old iron triangle. Mr Ozawa has attempted to reinvent himself as a reformer, but uses traditional factional tactics.

So Japan's political revolution never happened?
We are talking about evolution, not revolution.

So what has happened in the past three years?
Japan has moved from a one-party system, to muddled coalitions. That is now simplifying into a two-party setup, embodied by the clash between the conservative Mr Hashimoto and the mildly progressive Mr Ozawa. The shift to a two-party system is important, as it puts pressure on the new rivals to woo voters with ideologies, rather than the pork barrels of the past. Mr Hashimoto and Mr Ozawa have had a lively policy debate, itself a change.

William Dawkins

Kendo attitude: Hashimoto has a clear policy manifesto

PEOPLE

Robinson reinvents the Woolwich

Chief executive Peter Robinson, left, and chairman Sir Brian Jenkins

When Peter Robinson joined Woolwich Building Society as a management trainee in 1963, he was expecting to be with the Woolwich only for a couple of years while he considered other career prospects.

After 32 years in the home loans and retail savings business, he is its chief executive, and marked his accession by announcing last week plans to turn the UK's third largest building society into a bank and float it. The decision will mean free shares for up to 3.5m Woolwich savers and borrowers.

For several years he was heir apparent to Donald Kirkham. During this time, Robinson says, "if there was a need for organisational change, cost suppression and fairly radical alterations to our business, I've usually been the one to do it".

He intends to rely on a small team of executives instead of looking to a partnership with a potential successor.

But the change of management style was overshadowed by the constitutional change announced last week. The Woolwich board took the final decision on January 3, just after Robinson, who is 54, took over.

This was encouraged by the announcement that Cheltenham & Gloucester, the sixth largest building society, was being bought by Lloyds Bank for 1.8bn. "That deal altered things forever in terms of any traditional building society merger," says Robinson. "It raised the spectre of a possible hostile bid, and it certainly raised members' expectations in terms of possible bonuses. Before that I had been fairly hopeful that we could manage consolidation within the sector."

The difficulty of achieving more than organic growth – in a relatively flat mortgage market – if Woolwich remained a building society, owned by millions of its savers and borrowers, was an important factor in the decision.

The society emphasised that, as a public limited company, it could raise extra capital more easily. That would give more scope for expansion, as well as acquisitions.

The Woolwich history of expansion is mixed. Robinson emphasises its early start in developing life assurance and unit trust subsidiaries which are now sizeable businesses. It was also the first building society to follow Abbey National, the home loans and banking group, into a joint venture to devise and sell general insurance.

But it has taken time for its French and Italian subsidiaries to become profitable, and its estate agency is still producing pre-tax losses, however valuable as a source of mortgage business.

Robinson would like the diversified businesses to be more important in providing the group's income. "The proportion is 90 per cent to 10 per cent in favour of UK core businesses," he says, "with 10 per cent from other activities. Our medium-term objective is to double that 10 per cent".

Woolwich is, he adds, "poised to expand its French operation", and he is also keen to see acquisitions for its life assurance, unit trust and general insurance businesses.

The emphasis on acquisitions and the need for Woolwich to "bulk up" if it is not to be a takeover target at the end of its protected five-year period after flotation, suggests that – with an estimated current capitalisation of 2.5-3bn – it might otherwise be vulnerable to a hostile bid.

Safety, Robinson says, lies in two areas. "It's a question of size and of sustaining a decent profit record. If we do achieve that, we will either be too big, or have sufficient clout to go in on a partnership basis. Or – if we are absorbed by a giant – we will have sufficient bargaining power and support from institutional investors to continue with the Woolwich franchise."

He resists the notion that having spent so long with a single organisation may prove a disadvantage in running a public limited company. "During the time I've been here, Woolwich has been mutating from an organisation of modest size and influence to where we are now. As for the idea that building societies provide only a 'confined' experience, we have dealt with insurance companies, banks and other financial services organisations, and so have broadened our range that way as well."

Counterparts at other building societies say Robinson's commitment shows in a deeply competitive approach which underlies an engaging and affable manner.

An executive in another society remarked Robinson's relief that Woolwich had pipped to the post with its announcement the other society widely expected to become a bank, Alliance & Leicester.

Whether this will make up for the likelihood that A&L could still become a bank first – Woolwich is not intending to float until late 1997 – remains to be seen.

Alison Smith

NAMES IN THE NEWS

Swedlin returns to her roots as a Hollywood agent

International Creative Management has stepped up its campaign to seize the high ground in the Hollywood talent agency business by installing film producer Rosalie Swedlin as a senior vice president, writes **Christopher Parkes in *Los Angeles*.**

Swedlin, formerly a top rank agent with Creative Artists Agency until she moved into independent film-making in 1991, will have wide responsibilities in ICM's film and television operations.

The appointment is unusual in a business where executives are routinely poached on condition that they bring trains of actors, writers and directors in their wake. Swedlin comes without any clients; but she does have a reputation, built up over 10 years at CAA, where she handled the likes of Martin Scorsese, Alan Parker and Joe Roth, who now runs Disney Studios.

Since branching out on her own she has, most notably, been executive producer on Clockers, Spike Lee's drug-culture shocker.

Her new employer has wasted no time recruiting talent in the wake of recent ructions at CAA, which has lost its founder members to new careers in the past year.

Action actor Steven Seagal, formerly martial arts instructor to Michael Ovitz, the CAA founder who is now number two at Walt Disney, has joined ICM. Kevin Costner, another international star attraction, has left CAA and is yet to decide which agency will take the traditional 10 per cent of his fees in future. And Sylvester Stallone, who recently broke new ground with a multi-film contract under which he is guaranteed $20m per role, has also left CAA for ICM.

The firm, which had already cornered the market in big-name tough guys – Arnold Schwarzenegger and Jean Claude Van Damme are on its books – is also preoccupied with reinforcing its popular music operations.

Unlikely revolutionary on the Vienna market

Gerhard Randa seems an unlikely man to change the clubbiness of the Austrian equity business, writes Eric Frey in Vienna.

Now 51, Randa has made his career in the state-controlled banking sector, rising to chairman of Bank Austria last April after five years as vice-chairman. As such, he leads Austria's largest bank, controls the fourth largest, Eurocredit, and has a business portfolio ranging from construction to fast food restaurants.

Since last week, Randa has also been president of the Vienna stock exchange, a position that routinely goes to one of the city's top bankers.

Bank Austria is one of the handful of players that control the Vienna stock market and make trading and share placements often look quite untransparent. But if Randa gets his way, all that will end. "We quickly have to reach world standards," he says, citing US and British disclosure and transparency practices.

Vienna is well on the way to a fully electronic trading system – it is due to switch in mid-1996 – and Randa is pushing for a supervisory body similar to the US Securities and Exchange Commission.

There is still some way to go, however. There is little domestic interest in shares and most public companies have only a small part of their equity in free float. "We have to intensify the breadth and the depth of the stock market", Randa says, citing privatisations and initial public offerings.

This apparently does not apply to his own bank, which is controlled by a foundation close to the city of Vienna and has very few shares on the market. "We are very happy to have stable strategic investors," Randa says.

FILM AND VIDEO

■ Despite top security at ports and airports, our country's film directors are still escaping in large numbers. Mike Figgis, last seen waving a viewfinder in the ultra-British *The Browning Version*, has been to Nevada to make *Leaving Las Vegas*, a tale of sex, drink and dark nights of the soul. And fellow Brit Anthony Waller absconded to Moscow for his directing debut, a harum-scarum thriller called *Mute Witness*.

These are movies to give defection a good name. *Leaving Las Vegas* has already collected critics' nominations and Oscar bets in America. Nicholas Cage and Elisabeth Shue star as hard-drinking writer and fast-sinking hooker in this potent tale of decline and fall in Sin City. It makes *Showgirls* look the meretricious tripe it is.

Invigorating shower: Nicolas Cage stars in Leaving Las Vegas

■ *Mute Witness* became a mini-cult at Cannes this year. Made for a pocketful of roubles, Waller's high-speed murder shocker is set in and around a crumbling Russian film studio.

The props, lights and mostly unheard-of actors came cheap. But money cannot buy this degree of ingenuity with plot, images and script (in English, not Russian). And don't blink or you'll miss Waller's one big name, Sir Alec Guinness as "the Reaper".

■ Elsewhere Michelle Pfeiffer prowls the classrooms in *Dangerous Minds*, teaching children with special needs. In America these include the need to carry a gun and switchblade. A *Blackboard Jungle* for the '90s, the film has been a hit in America, where David and Jerry Zucker (of *Naked Gun*) are already making a feature-length spoof called *High School High*.

■ On video we have Jerry Z's last film, the straightfaced *First Knight*. Only the title is jokey in this rousing tale of Richard Gere's Lancelot, Sean Connery's King Arthur and Julia Ormond's Guinevere swashbuckling all over the home counties.

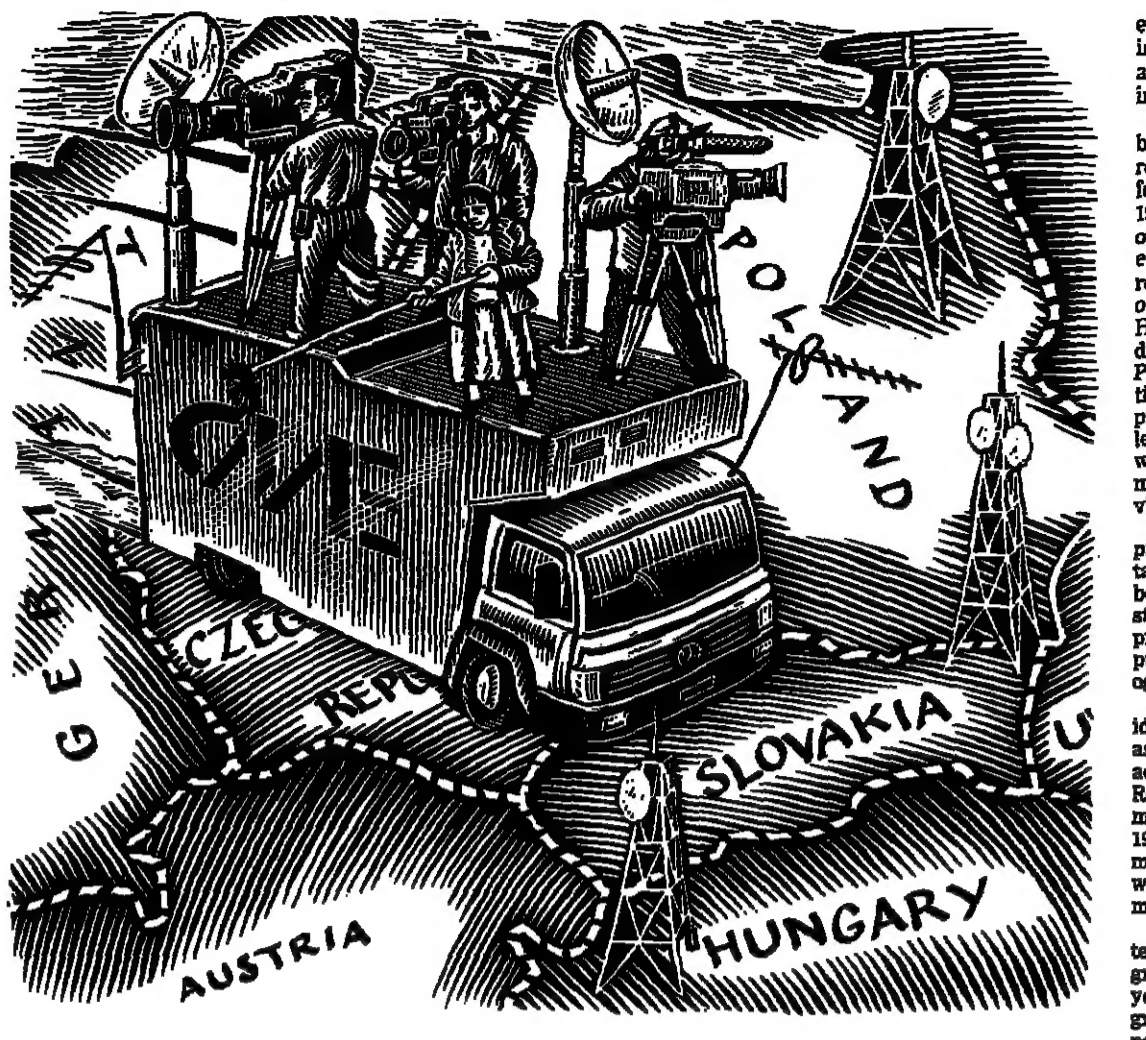
British history Hollywoodised? Yes. But if they can't keep our film people out, how can we complain about theirs coming here?

Nigel Andrews

MANAGEMENT

Kevin Done on how US venture capitalists are changing the broadcasting map of eastern Europe

TV programme of expansion



Central European Media Enterprises has stolen a march in eastern Europe on most of the world's established media giants. With the recent launch of commercial television operations in Romania and Slovenia, it is mounting an increasingly serious challenge to entrenched state-owned broadcasters in the region. And if current licence applications in Poland and Ukraine are successful, it could be reaching a target audience of more than 100m viewers by 2000.

Created by a group of US venture capitalists led by Ronald Lauder, one of the heirs to the Estée Lauder cosmetics fortune, CME is rapidly changing the broadcasting map of the former Communist bloc.

Its strategy – based on early market entry, investment alliances with local partners and the use of satellite technology to plug gaps in its terrestrial network – is directed at trying to repeat the spectacular breakthrough it achieved with Nova TV in the Czech Republic, already regarded as one of the most successful launches in television history. It will also be hoping to avoid the pitfalls and losses it has suffered in regional television in Berlin where it has discovered a more local approach is necessary.

Started in February 1994 Nova TV is eastern Europe's first, private national commercial television station. After less than two years of operation, it has eclipsed the two channels of its state-owned rival Czech Television (CTV). It claims an average share of more than 70 per cent of Czech television viewers and is developing into a formidable cash-generating machine.

The success of the Nova TV operation, in which CME holds a 66 per cent equity stake, has supported the flotation of the group on the Nasdaq stock exchange in the US, where it has raised gross proceeds of $168m (£109m) in two share offerings in October 1994 ($76m) and again in November last year ($92m). Beside Romania and Slovenia, operations are planned to begin in Hungary and Slovakia later this year.

According to Leonard Fertig, chief executive of CME and previously a pioneer of pay television in the US, early entry to the different markets across the region is allowing CME to take advantage of the high initial rate of growth in television advertising expenditure.

It is gaining too from the absence of serious competition with only a very limited number of broadcasting licences available in each country, and it has also acquired exclusive rights to western programming. Nova TV, for example, has introduced US-style television appealing to a mass audience with a mixture of films, comedies, drama, soaps, news, sports and late night soft-porn programmes.

All foreign language films and programmes are dubbed into Czech, and Nova TV has acquired the Czech broadcasting rights for more than 6,000 internationally released films and television episodes.

With the profits rolling in Nova TV is buying its elegantly modernised headquarters in the historical centre of Prague, and CME is confident that the Czech station is already solidly self-financing.

Crucial to Nova TV's rapid growth was its ability to broadcast nationwide from day one – and it is here that the joint venture approach has been important.

The US venture capitalists shrewdly joined forces in 1992 with a group of Czech and Slovak media personalities and academics. Together they won the contest for the national licence to use the broadcasting frequency in the Czech Republic of the old federal Czechoslovak TV channel, which became available with the split of the country at the end of 1992.

CME has also been astute enough to team up with local interests with close government links. Among the Czech partners was Vladimir Zelezny, a former dissident journalist, screenwriter, playwright and television director. Zelezny, an activist in the 1989 Velvet Revolution, became official spokesman both for Civic Forum and later for the Czech government, before joining the project for private television in 1992. He became Nova TV's first general director and has since been rewarded for its success with the additional post of president of CME's television station group.

Similarly, CME has also secured its position in Romania by forming a partnership with local personalities, namely Adrian Sarbu and Ion Tiriac, who had been awarded several regional television broadcasting licences, but lacked the capital and expertise to knit them together into a national channel.

Sarbu, a documentary film maker before the demise of the Ceausescu regime, ran the election campaign for the National Salvation Front in 1990 and served briefly as secretary of state for media affairs in the government of Petre Roman, before resigning to form Media Pro, his own media and advertising group. He has been appointed general director of the Romanian operation, PRO TV. Tiriac, the former international tennis player and tournament promoter, has become one of the leading entrepreneurs in Romania with interests from banking to motor distribution and airport services, as well as television.

From his Prague base the newly promoted Zelezny is taking on the task of developing services that can be shared between the various CME stations including joint production, programme exchange, marketing, purchase of sophisticated technology and multi-market advertising.

CME is already cashing in on rapidly rising advertising expenditures as commercial television develops across central Europe. In the Czech Republic the television advertising market has jumped from $6m in 1991 to $96m in 1994 and an estimated $135m-$140m last year, of which Nova TV claimed a share of more than 70 per cent, says Fertig.

In Romania he estimates that television advertising expenditures grew from $3m in 1994 to $25m last year. "We forecast very rapid growth for the next four-five years, perhaps a doubling each year with a total market of between $300m and $400m by the end of the decade."

In the countries where CME already has broadcasting licences he forecasts a television advertising market of between $1bn and $1.5bn by 2000 and says this could grow to $2bn-$3bn, if CME wins the licences it is seeking in Poland and Ukraine.

The Czech Republic is the only country in which it has started with a national broadcasting licence from day one. In most other countries it is pulling together a patchwork quilt of regional stations and cable operators in a process that mirrors the development of the US networks years ago, says Fertig.

In Romania, for example, Sarbu and Tiriac held six regional television station licences covering 25 per cent of Romania's 23.2m population, and operated four local radio stations. The venture with CME will now manage all these stations and operate the PRO TV network. PRO TV reached around 35 per cent of the Romanian population at launch last month, but this should increase to around 55 per cent by the year-end.

Unlike several of the global media giants CME is expanding as a terrestrial rather than a satellite broadcaster, but it is using satellite technology to fill the missing ground links by delivering programmes via satellite to terrestrial television transmitters, cable television operators and affiliated stations. As an interim measure it is leasing part of a transponder on an existing satellite, but it has also taken a 12-year lease on a transponder on the Eutelsat HB3 satellite which is expected to be launched in January 1997. This will give all the stations affiliated with CME a low-cost programme distribution system in their own language.

Fertig likens CME to the infantry of the television industry in central Europe, fighting country by country for market share, in contrast to the aerial strike forces of the big media groups. "They take more of a high-tech approach with satellite technology delivered to people that can afford dishes, cable and pay TV. They are fighting the air war picking up single digit market share across the whole of Europe. We are the infantry with teams of people on the ground. We want as much of the TV advertising market as possible in each country.

"Building local partnerships and local businesses takes time and resources. Our rivals are too large to focus on individual small countries, so they are overlooking them. They got excited for a short time after the Berlin Wall came down. But they decided that the same effort needed for 5m to 10m people in a single country could be spent on 1bn people. They have focused on Asia instead."

In the meantime the CME infantry is setting up bases from Berlin, Dresden and Leipzig to Bratislava, Kiev, Prague, Budapest, Ljubljana and Bucharest. Each launch may initially appear chaotic, but the CME footprint is growing, and Fertig is confident the group can emerge as a powerful new player on the European media board.

Lauder's new media fragrance

Ronald Lauder likes to portray himself as an insider in eastern Europe. In Bucharest for the launch of CME's PRO TV operation, he is flanked by Romanian President Ion Iliescu at the grandiose House of the People, Ceausescu's megalomaniac folly.

"We have always worked closely with local officials in government. Whatever we do, it is with the blessing of government," he says.

The establishment links are crucial. As Lauder expands his commercial television operations through eastern Europe, government broadcasting licences are the vital first step.

Lauder, 51, is one of the billionaire heirs to the Estée Lauder cosmetics fortune. He is still on the Estée Lauder Companies payroll – he received $3.9m (£2.5m) in salary, bonus and other compensation for the 12 months to the end of June last year – but since the collapse of communism his attention has been focused on eastern Europe.

Late last year he raised $204m through the sale of 8.3m shares in the flotation of Estée Lauder. His remaining stake is worth in excess of $1bn, but he says that he is "likely" to sell additional "substantial" holdings from "time to time".

Lauder is re-establishing the family's roots in central Europe. His four grandparents came to the US at the turn of the century from an area within a 100-mile radius of Vienna, from present-day Hungary, Slovakia and Austria.

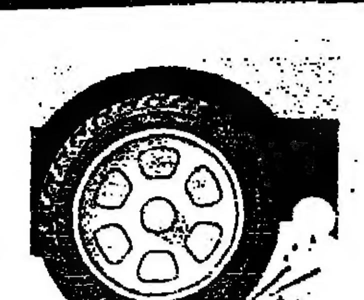
In the Reagan years his links to the region were enhanced by spells first at the Pentagon and then as US ambassador in Vienna. In the late 1980s, as communism crumbled, he was back at Estée Lauder, negotiating for stores in Moscow and Budapest, as well as failing to become mayor of New York.

He started the Central European Development Corporation in December 1989 with a group of people – including Mark Palmer, US ambassador to Hungary from 1982 to 1986 – looking for "interesting investment opportunities in east Europe".

Since 1990 Lauder's venture capital operations have moved successively into banking in Hungary – General Banking and Trust Company, the country's first bank privatisation – a cement plant in Estonia, real estate (including development of the Checkpoint Charlie site in Berlin), and restaurants with the purchase of Gundel's in Budapest, now restored to its former glory as one of Europe's great eating houses.

For the moment the spotlight is turned, however, to television and telecommunications. "We are looking for unique opportunities where, once in a lifetime, governments are giving out licences," says Hungarian-born Andrew Gaspar, a director of CME and one of Lauder's main venture capital partners.

"When you play back the videotape of western history since the war, some classes of investment would have been great. Real estate downtown would have done spectacularly well. And government licences of different types. These are unique opportunities."



FAST TRACK

Holiday Autos

Anyone who has hired a car from an airport at their holiday destination will know it is not as easy as it seems. Even if most of the charge was pre-paid, there can still be insurance premiums, currency supplements, additional driver cover and a myriad of state and local taxes to pay at the airport.

Remarkably for an industry dominated globally by large car hire companies, it was a tiny private British company that grabbed the opportunity to offer hassle-free car rental through travel agents.

In 1987, Clive Jacobs and two partners set up Holiday Autos in a room in central London with a few hundred pounds of capital. It now has sales of £40m and is a leader in the fast-growing European market.

Jacobs came to car rentals via a circuitous route. After jobs on building sites and in the fish department of Selfridges he started selling insurance for Hambros Life before returning, aged 20, to Israel where he was raised. He then took a job as a messenger delivering airline tickets for travel agents in Tel Aviv.

Returning to London, he joined a mass of other small agencies in the early 1980s selling cheap tickets through bucket shops. It was here that he and his partners found the ignored niche of car rentals.

"Car hire was the only product not being extensively sold through travel agencies," he says. Lining up small rental companies in popular resorts, Holiday Autos offered an attractive package to the travel agents that allowed them to sell the product easily and get paid quickly.

Working with slips of paper and a telex machine, the three partners sold nearly £1m of car rentals in their first year and were immediately profitable. The company then linked up with large car rental companies throughout Europe and boosted its marketing drive by saying that customers could not book more cheaply elsewhere.

Over the next two years, during which sales rose to £2.5m and then £6m, the company opened offices in Germany and the US and has now franchised the operation across 42 locations.

Holiday Autos' arrival has not gone unnoticed – although the three founders were able to disguise its progress by trading until last year as a partnership which does not have to file accounts. Suncars, owned by tour company Unijet, is another rapidly growing name in car rental broking, while Hertz, the giant subsidiary of the Ford Motor Company, has cut prices and is currently challenging Holiday Autos' advertising campaign in the courts.

With the holiday rental market growing in line with the desire for more adventurous holidays and the US market still largely untapped, Jacobs says there is still much to go for.

It has just launched an all-in rental package for the US and has been made preferred carrier for Virgin's newly opened route to Crete. The ambition is to make Holiday Autos as well-known internationally as Hertz and Avis.

But having toyed with a flotation earlier this year, Jacobs has no plans to sell. "If you want the progress of your business to be dictated by people who do not understand your business then go public."

Richard Gourlay

No fatties, smokers or oldies wanted

LUCY KELLAWAY

Three cheers for the US Supreme Court. Last week it ruled in favour of a Florida employer which makes prospective workers swear they have not had a puff of a cigarette in the past year. The court correctly saw nothing illegitimate in this: the employer was simply trying to keep down its costs from smoking-related diseases.

I am particularly cheered to discover that the attempt to confine smokers to the dole queues is not exclusive to the US. According to our very own Institute of Personnel and Development, British companies are within their legal rights if they offer jobs only to non-smokers.

What I do not understand is why companies on either side of the Atlantic should want to stop at smoking. Why not have rules banning all fat people? There was a case in the US recently in which someone was fired for being too fat, and one can only commend that company for its bravery. After all, fat people may drop down dead with a heart attack any minute. Similarly, people with high cholesterol levels should be prevented from being employed, as should people who are too thin or too old. The most obvious group that should be excluded from the job market in the interests of keeping a lid on costs are women – they get pregnant and then are absent for months on costly maternity leave.

One of the beauties of being an employer in the 1990s is that with so many people out of work you can pick and choose whom to hire. It could be argued that if you limit your choice to males of average weight, who do not smoke or drink or do anything that might risk their health in any way, you may not be getting the most talented, creative people around. But in today's stultifying, frantic company it is not obvious that talent or creativity is always an advantage.

Which would you prefer: a face to face interview with a life assurance salesman or a visit to the dentist? Until my own visit to the dentist last Wednesday at which a front tooth was extracted I had always thought the two experiences were much of a muchness.

Thus I was not in the least surprised by last week's supposedly shocking revelation that half the UK population would prefer to buy financial services over the phone, willingly foregoing the traditional personal interview. What is remarkable about the news is that the life assurance industry has fondly grasped the wrong end of the stick, and concluded that the British public must be becoming more clued up about financial services and able to make their own decisions about what to buy. But the real explanation is surely that most people do not enjoy inviting a financial salesman over the threshold, and would prefer to get on and buy the product without the smarmy sales pitch. After all, it is easier to put the phone down than to show someone the door. If only dentistry could be done over the phone.

Senior managers should set a good example and go home at 5pm or 6pm every day for an enriching time with their families, followed perhaps by a bit of community service. That was the recipe for success given by cook and businesswoman Prue Leith last week at the RSA.

You need to be an unreconstructed workaholic to disagree that most people spend too much time in the office for their own good and for that of their families. However Leith, like many of her fellow campaigners on this newly fashionable cause, is guilty of some wishful thinking.

She refers to "evidence" that people with "happy personal relationships and healthy outside interests make better employees than the overloaded executive guilty about neglecting his or her family".

It would be nice if this were so. Most of the really successful people I can think of are those who give everything to their work.

A bad or non-existent family life, and an aversion to evening classes and choir practice, may actually be an advantage as far as the company is concerned.

Of course there is Gerry Robinson, chief executive of Granada, who works a 30-hour week and still insists on a long family holiday even when he is in the middle of a £3.7m takeover bid. But he is not the norm.

What is true is that having a few outside interests and a functioning home life may make someone a more rounded human being than one who lives for work. But there is no reason why a company should give a fig about that.

Recently I came upon a power-suited woman disappearing into the ladies' loo at her office in order to have a conversation on her mobile phone.

Must be pretty secret, I thought, until I heard her say: "Have you done your homework?". What does that say about family-friendly policies?

BOC has devised its own course to train Chinese managers, reports **Della Bradshaw**

College proves a real gas

While business schools abound in Europe and North America there are few in East Asia and fewer still in China. But for companies setting up in China there is an enormous need to train locally recruited managers.

Just such a problem faced BOC Gases, which owns three companies in China and has a further 17 joint ventures there, selling industrial gases to the chemical, steel and food industries. Michael Brown, managing director for BOC in China, had to decide what to do.

The concern was neither the handful of ex-patriot employees nor the dozen or so high-flying Chinese staff. The issue was how to train the 150 general managers who worked on a day-to-day basis with BOC's 3,000 Chinese employees.

Brown finally decided to set up his own school, the BOC College, in conjunction with the university in Fushim in north-east China, where one of BOC's joint venture companies is sited. Then the company designed its own management programme modelled on a traditional business school MBA.

BOC bought in training modules where available and developed others where required. The first 11 students graduated from the first 10-month, full-time course at the end of 1995.

Not least of Brown's reasons for rejecting traditional overseas business courses was the cost. Because of low living costs in China the Fushun course cost BOC just \$30,000 (£19,500) to develop – the equivalent of course fees for two students to study on an MBA course at a European business school.

The bureaucratic difficulties in getting students out of the country were a further deterrent to the business school route. And Brown wanted to retain editorial control of the programme and stamp the BOC image on it – the marketing module, for example, on how to market industrial chemicals, is taught exclusively by BOC's staff.

Students at the BOC College in Fushun, China, learn all about western marketing skills

He was further concerned that many of the managers did not speak English well enough to study a full-time course in English. (One third of the Fushun course is English language learning.)

As well as language difficulties, Brown felt the students would lack the basic management background in, for example accountancy or marketing, to survive a full-time MBA programme. Aged between 30 and 45, they were slightly older than the average business school student. "They'd be lost in a developed business school environment," he says.

Brown believes that one of the biggest benefits of the course will not be in the more obvious basics of a market economy – such as the importance of a profit and loss statement. Instead he argues that human resource management is the biggest problem faced by companies such as BOC in China. "One of the key areas is developing the people who then go on and develop the next people down, and so on."

With human resources such a big issue, Brown decided to buy in an HR module from the Nanyang Technological University in Singapore. The course was taught by a lecturer from Singapore, Shi Yuwei, unlike most of the course material which was taught by lecturers at the Fushun university.

A further 10 to 15 students are being selected to take the course this year, which could be slightly shorter than the existing 10 months. All the prospective students are treating the proposal with enthusiasm and treat selection as a "significant honour", says Brown. "Motivation is extremely high. They see it as an opportunity to move up the career ladder," a concept which, until recently, has been alien to many Chinese. To consolidate this view the first 11 graduates have been promoted on returning to their respective companies.

Some of the high-fliers could now go on to work in other BOC companies in the Asian region and some could be sent to western-style business schools.

Although some students faced particular problems, the attribute of the course that most students commented on was its "overall intensity", says Brown, referring to the length of the course and the fact that it was residential.

As one recent graduate, Zheng Ye Ping, equipment supervisor at BOC in Shanghai, comments: "We studied very hard and usually didn't go to bed until after 11pm."

NEWS FROM CAMPUS

Virginian cash pledge for entrepreneurs

Frank Batten, the entrepreneurial chairman of newspaper group Landmark Communications, of Norfolk, Virginia, has pledged \$10m (£6.4m) to the University of Virginia's Darden Graduate School of Business.

The pledge means that Batten will match dollar for dollar all other donations to the school up to the \$10m ceiling. The money will go towards developing the school's programme in entrepreneurial leadership, which will bring together the three disciplines of leadership, entrepreneurial skills and business ethics.

The \$10m is in addition to the Batten Challenge for Entrepreneurial Leadership's original \$3.5m fund.
University of Virginia: US, 804 924 0311.

Occidental taste for Asian students

Prospective business school students in Seoul, Taipei, Singapore, Kuala Lumpur, Manila and Jakarta will get a taste of what European business schools offer with a series of forums to be held in Asia this month and next.

The joint promotional tour by the 14 European schools, including Iese, of Spain, IMD, of Switzerland, Insead, of France, and RSM Erasmus, of the Netherlands, is intended to persuade Asian students to study in Europe.
RSM Erasmus: Netherlands, 10 452 9509.

Youth get a chance to prove their worth

The UK's African and Caribbean Finance Forum, which promotes the role of those from ethnic minorities in the professional sector, is looking for professionals from all sectors of industry to take part in a one-day seminar in London on 26 January.

The aim of the day is to take 60 students through a series of workshops covering the skills needed to succeed as a professional.
ACFF: UK, (0)181 298 9222.

● Young and aspiring managers, aged 35 and under, can enter the UK Institute of Management's competition to write a 1,000-word article entitled "What do you need to succeed in management?" The winning article will be published and there will be a cash prize.
IOM: UK, (0)171 497 0496.

Getting a taste of their own medicine

January is the month where business teachers are returning to the classroom. At the London Business School, 40 business lecturers gathered for the International Teacher's Programme, which trains them to teach more effectively.

Meanwhile at Thunderbird, the American Graduate School of International Management, business professors from 24 international schools are gathering to discuss issues in global business strategy.
LBS: UK, (0)171 262 5050.
Thunderbird: US, 602 978 7827.

New South Wales gets new boss for its MBA

The Australian Graduate School of Management at the University of New South Wales has appointed a new director of the school's Executive MBA programme. Greg Whittred, latterly professor of accounting at the school, took over as boss of the three-year part-time course at the beginning of January.
AGSM: Australia, (02) 931 9200.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
ASH Cap Fin (Jersey) 9½% Cv Bd 2006 4.75p
Allied Irish Banks 10% Bd 1996 IR£50.0
Alps Elec 7% Bd 1998 Y700000.0
Do 7% Bd 1999 Y700000.0
Do 7% Bd 2000 Y700000.0
BCE C$0.68
BZW Cv Inv Tst Equities Index Un Ln 1996/2002 1.814p
Barclays Prop Index Certs 1997 £1.59
Do 1998 £1.59
Do 12% Un Cap Ln 2010 £6.0
Barlow R0.58
Bett Bros 3.65p
Bradford & Bingley Bldg Scty FRN 1997 £178.09
Do FRN 1998 £179.78
British Steel 3p
Churchbury Estates 4.2% Cm Pf 2.1p
City of London PR 1.54p
Dares Estates 10¼% 1st Mtg Db 2012 £5.125
Edinburgh Inv Tst 3¾% Db 1998 £1.875
Fenner 3p
Forte FRN 1998 £1886.12
Franklin Res $0.11
GEI Int 1.5p
Govett Strategic Inv Tst 10⅝% Db 2016 £5.1875
Greenway 0.5p
Guinness 10⅝% Nts 1997 £106.25
Helical bar Cv Pf 2.625p
High Inc Tst 1.6p
Hino Motors 6.9% Bd 1999 Y690000.0
Inco 15¾% Un Ln 2006 £78.75
Irish Permanent 8½% Bd 2004 IR£4.28493
Johnson Fry Utilities Tst 1.78p
Johnson Fry Second Utilities Tst 1.6p
Kobe Steel 5.2% Bd 1998 Y520000.0
Do 5¾% Bd 2003 Y575000.0
Lasmo 9⅝% Cm Pf 1996 4.8125p
Macdonald Martin Distilleries A Lim/Vtg 2.75p
Do B 1.375p
Murray Split Cap Tst 2.75p
NEC 6.8% Bd 1997 Y680000.0
Do 6.8% Bd 2000 Y680000.0
North Surrey Water 4% Db £2.0
Do 4¼% Db £2.125
Do 5¼% Db £2.625
Occidental Petroleum $0.25
Pacific Gas & Elec $0.49
Perkins Foods Cv Pf 2005 4p
Perpetual 29p
Quaker Oats $0.285
Quality Software Products 1.5p
Quebec Central Railway £2.50
Ricoh 7% Bd 2000 Y700000.0
Royal Bank of Canada Govt Sterling Fd Inc Ptg Pf 1p
Scottish American Inv Equities Index Un Ln 2004 1.814p
Shelton (Martin) 1.25p
SmithKline Beecham A 3.2p
SmithKline Beecham/ SmithKline Beckman Units $0.06326
Sonar 2 Class A Mtg Bckd FRN 2022 £173.05
Southnews 1.76p
Sweden (Kingdom of) 11% Ln 2012 £550.0
Tenet Healthcare 9⅞% Un Ln 2011 £4.9375
Toshiba 6¾% Bd 1997 Y675000.0
Do 6¾% Bd 1999 Y675000.0
Transtec 0.7p
Treasury 9½% Ln 1999 £4.75
Victorian Public Authorities Fin Agency 8¼% Gtd Bd 2002 $412.50
Witan Inv 3.4% Cm Pf 1.7p

■ **TOMORROW**
Amber Ind 1.75p
Anglo & Overseas Tst 4½% Cm Pf 1.575p
Treasury 8½% Ln 2007 £4.25
Chester Asset Receivables Dealings No.1 Asset Bckd FRN 2000 £1773.01
Commonwealth Bank of Australia Dtd FRN Jul 1998 $298.68
Do Dtd FRN Jul 1999 $298.68
Do Dtd FRN Jul 2000 $298.68
Do Und FRN (Jul 1988) $306.47
DKB Int Fxd/FRN 2004 $32033.33
Elliott (B) 1.2p
European Inv Bank 9% Ln 2001 £225.0
First Iberian Fd $0.07
Fluor $0.17
Goodman Fielder A$0.05
Hongkong & Shanghai Banking Prim Cap Und FRN (Ser 3) $80.82
Hydro-Quebec FRN Ser IN 1999 $15.17
Japan Airlines FRN Jan 1998 Y3229236.0
Marston Thompson & Evershed 2.5p
Mid Kent Hldgs 6.25p
Nat West Bank Non-Cm $ Pf Ser A $0.532
Do Ser B $0.4375
Do Prim Cap FRN Ser A $308.42
Rainford 2p
Sanwa Australia Fin Gtd Fxd/ FRN 2005 $3229.17
Sumitomo Fin Gtd FRN 2004 $31770.83
Tie Rack 0.5p

■ **WEDNESDAY JANUARY 17**
Australia & New Zealand Banking A$0.18
Bridport-Gundry 2.22p
Estates & Agency 10p
Grampian Television 1.25p
Halifax Bldg Scty 11% Sb Bd 2014 £1100.0
Motorola $0.10
Penna 1p
SCA 4¼% Gtd Cv Bd 2004 Ecu42.50
Sainsbury (J) 3.4p
St Paul Co's $0.40
Tongaat-Hulett R0.40
Treasury 2½% IL 2024 £1.9159
UPF 2.75p
Vosper Thornycroft 6.8p

■ **THURSDAY JANUARY 18**
Bradford & Bingley Bldg Scty FRN 1999 £172.81
Caledonia Invs 5.9p
Concentric 4.66p
Echlin $0.205
Fuller Smith & Turner A 2.92p
Lloyds TSB 68.3p
Lon & Overseas Freighters $0.0025
Lucas Inds 4.9p
Merrydown 2p
Mitsui Fxd/FRN 1999 Y189272.0
Waddington (J) 4p

■ **FRIDAY JANUARY 19**
Abbeycrest 1.2p
BPB Inds 3.35p
Barings Gtd FRN 2001 $306.67
Capital Radio 7p
Dailywin 3p
De La Rue 7.25p
Dunedin Worldwide Inv Tst 7.1p
Exchequer 9¾% 2002 £4.875
Faber Prest 11p
Falcon 2.5p
Hogg Robinson 3.3p
King & Shaxson 4p
Do 5% Cm 2nd Pf 1.75p
Lonrho Fin FRN 1997 $183.68
M & G Inc Inv Tst 1.05p
Do Geared Units 1.05p
Do Package Units 1.05p
Marks & Spencer 3p
McKechnie 11p
Rexmore 1.3p
Rowlinson Sec 0.31p
Shaw (Arthur) 0.2p
Treasury 2% IL 2006 £2.15
Wainhomes 1.5p
Wells Fargo Sb FRN Jul 1997 $158.13
Young (H) 2.7p

■ **SATURDAY JANAURY 20**
Bradford & Bingley Bldg Scty 11⅝% Per Int Brg £581.25
British Steel 11½% Db 2016 £5.75

■ **SUNDAY JANUARY 21**
Courtaulds 4.3p
Latin American Extra Yield Fd $0.15

UK COMPANIES

■ **TODAY**
COMPANY MEETING:
Western Selection, Honourable Artillery Co., Armoury House, City Road, E.C., 11.00
BOARD MEETINGS:
Finals:
Coda
PWS
Second Consolidated Tst
Interims:
Intelek
Tomkins

■ **TOMORROW**
COMPANY MEETINGS:
Alvis, Savoy Hotel, Strand, W.C., 12.00
McCarthy & Stone, Homelife House, 26-32, Oxford Road, Bournemouth, 11.00
Sanderson Elec, Grosvenor House Hotel, Charter Square, Sheffield, 12.00
BOARD MEETINGS:
Finals:
Alexanders
Microgen
Quality Care Homes
Interims:
Debenham Tewson & Chinnocks
Farepak

■ **WEDNESDAY JANUARY 17**
COMPANY MEETINGS:
Capital Radio, Euston Tower, N.W., 12.00
Tadpole Technology, Trinity Centre, Cambridge Science Park, Milton Road, Cambridge, 11.00
BOARD MEETINGS:
Finals:
First Leisure
Irish Continental
Interims:
Budgens
Dudley Jenkins
Nobo
Photo-Me
Stanley Leisure
UK Land

■ **THURSDAY JANUARY 18**
COMPANY MEETINGS:
Concentric, Belfry Hotel, Lichfield Road, Wishaw, Warwicks, 2.30
Dunedin Worldwide Inv Tst, Dunedin House, 25, Ravelston Terrace, Edinburgh, 12.00
Euromoney Publications, Stationers Hall, Ave Maria Lane, E.C., 9.00
Govett High Inc Inv Tst, Shackleton House, 4, Battle Bridge Lane, S.E., 12.00
Henderson Strata Invs, 3, Finsbury Avenue, E.C., 2.30
MY Hldgs, Windlebrook House, Guildford Road, Bagshot, Surrey, 10.00
Morland, The Brewery, Ock Street, Abingdon, Oxon, 12.30
River Plate & General Inv Tst, Knightsbridge House, 197, Knightsbridge, S.W., 10.30
Royal Bank of Scotland, Balmoral Hotel, Edinburgh, 12.00
BOARD MEETINGS:
Finals:
Aberforth Smaller Co's Tst
Brooke Tool Eng
Brunner Inv Tst
Hill & Smith
Neotronics Tech
Premier Land
Interims:
Helton
Magnum Power
McKay Sec
Ransom (Wm)
Tottenham Hotspur
Vegs

■ **FRIDAY JANUARY 19**
COMPANY MEETINGS:
Abacus, Abacus House, Bone Lane, Newbury, Berks, 10.30
BOC, Savoy Hotel, Strand, W.C., 11.30
Bellway, Copthorne Hotel, Quayside, Newcastle upon Tyne, 12.00
BOARD MEETINGS:
Interims:
Abtrust Lloyds Insurance Tst
British Bloodstock Agency
Mitie
Park Food

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

CONFERENCES & EXHIBITIONS

JANUARY 17-21
The Lapada Antiques and Fine Art Fair
A superb presentation by 100 members of LAPADA together with a truly captivating ambience makes this an occasion to be enjoyed by the connoisseur and the collector alike.
Enquiries: Linda Colban - Centre Exhibitions
Tel: 0121 767 2760
NEC -BIRMINGHAM

JANUARY 18, FEBRUARY 15 & MARCH 21 Business Angel Investment Workshops
The one day workshops cover the practical issues of raising and making equity investments in small, unquoted companies and start-ups. The workshops are run by VCR, which has 17 years' experience of securing investment from Business Angels. For: ● Businesses seeking capital for expansion ● Entrepreneurs looking for start-up equity capital ● Business Angels ● Professional advisers. GBP 150 + VAT. Includes a copy of *The VCR Guide to Venture Capital in the UK and Europe* (usual price £100).
Contact: Clare Walter,
Venture Capital Report Ltd.
Tel: 01865 784411 Fax: 01865 784412
OXFORD

JANUARY 23/24
Practical Dealing course - Foreign Exchange
Training in Spot and Forward FX dealing for trainee/junior dealers and Corporate treasury personnel, also ideal for ACI Diploma candidates. Highly participative course including use of WINDEAL (PC Windows-based dealing simulation). Training effected by practitioners with many years' market experience.
GBP 520 + V.A.T.
Lywood David International Ltd.
Tel: UK 44 (0) 1959 565820
Fax: UK 44 (0) 1959 565821
LONDON

JANUARY 24 & 25
Intermediate Swaps
* Definition - types *Pricing & Quotation * Market Terminology * Cost Structure * Generic Swap * Non-generic Swaps * Pricing the Fixed Side * Amortising Swaps * Reversals (Cancellations) * Currency, Asset, Generic Asset Swaps * Risks and Hedging * Arbitrage, etc * Case Studies Throughout.
£520 + VAT 2 days.
Contact: TFL/ Nicola Blackman
Tel: 0171-606-0084/600-2123
Fax: 0171-600-3751
LONDON

JANUARY 25/26
Introduction to Capital Markets
Training course covering Bonds, Equities and introducing their derivative markets (Futures and Options). A practical course with case studies, investment pricing and risk identification exercises - intended for junior securities personnel, trainee dealers, systems development and other support staff. GBP 520 + V.A.T.
Lywood David International Ltd.
Tel: UK 44 (0) 1959 565820
Fax: UK 44 (0) 1959 565821
LONDON

JANUARY 26
Investor Relations
Measuring the effectiveness of your IR activities, the revamped City, building a meaningful international shareholder base, cross-border work, 1996 shareholder involvement in governance, the executive pensions timebomb: keeping one step ahead of complex investor relations issues. Speakers: BP, Morgan Stanley, Merrill Lynch, PIRC, Frew MacMaster, MORI. Venue: Law Society, London.
Contact: Bass Associates Seminars
Tel: 0171 436 4486 Fax: 0171 436 4478
LONDON

JANUARY 29
Florida - Coordination of business with Latin American markets
Half day seminar on Florida's capacity to add value to trade and other services destined for Latin American markets. Speakers include Lieutenant Governor MacKay, Sir Nicholas Bonsor MP and representatives from Barclays Bank, British Airways, Citibank, KPMG, Steel Hector & Davis and others.
For details contact the Corporate Office, Canning House, 2 Belgrave Square, London SW1X 8PJ, Tel. +44(0) 171 235 2303
Fax. +44 (0) 171 235 3587
LONDON

JANUARY 30
The outlook for the UK electricity market.
This one day seminar will explore the key issues shaping the electricity market over the next decade. Themes such as 1998, generation, wholesale price developments, transmission, distribution and supply will be considered.
Contact: Sharon Robson, Power Ink Ltd
Tel 01730 265095 Fax: 01730 260044
LONDON

JANUARY 30 & 31
Introduction to Foreign Exchange
* The Market Place * Deal Types *Processing * Payments * The Back Office Function * Double Entry Multicurrency Accounting * FX Revaluations * Arbitrage Case Study.
£425 + VAT 2 days.
Contact: TFL/ Nicola Blackman
Tel: 0171-606-0084/600-2123
Fax: 0171-600-3751
LONDON

JANUARY 30/31
Practical Dealing course - Money market
Training in traditional Cash markets including repos and short term derivatives (Futures and FRAs) - risk identification and evaluation, product pricing, position management - opportunities to test theories learnt in WINDEAL PC based dealing simulation. For Corporate treasury personnel and financial institution dealers, also ideal for ACI Diploma candidates.
GBP 520 + V.A.T.
Lywood David International Ltd.
Tel: UK 44 (0) 1959 565820
Fax: UK 44 (0) 1959 565821
LONDON

JANUARY 30/31
Introduction to Fund Management
Basic entry level training course covering the main asset classes, modern portfolio theory and how investment decisions are reached. Also covers Regulation and client reporting - a practical course with case studies, pricing and risk identification exercises - intended for junior fund management personnel, systems development and other support staff.
GBP 520 + V.A.T.
Lywood David International Ltd.
Tel: UK 44 (0) 1959 565820
Fax: UK 44 (0) 1959 565821
LONDON

JANUARY 31
Partnering - Strategies and Realities in Winning Construction Business.
A practical workshop for all sectors of the Construction Industry with major presentations on the realities of partnering in construction by SmithKline Beecham and BAA. The strategic underpinning of modern procurement management will be examined by Neill Irwin of Partnership Sourcing and Professor Andrew Cox of the Birmingham University Business School.
CBI Conference Centre
Bookings - Henley Event Management
Tel: 01564 794188 Fax: 01564 795050
LONDON

JANUARY 31 - FEBRUARY 1
CRINE 1996 Conference
Learning to Survive
The interactive programme includes workshops and open forum sessions giving delegates a *unique opportunity* to influence the future direction of the CRINE initiative.
Details and registration form:
Conference Associates and Services International Ltd.
Tel: 0171 499 0900 Fax: 0171 629 3233
QUEEN ELIZABETH II CONFERENCE CENTRE
LONDON

FEBRUARY 1 & MARCH 14
Successful Turnaround Strategies
A unique seminar for non-executive directors, venture capitalists and institutional financiers providing an insight into this highly complex subject. The programme leads participants through the diverse issues involved in corporate turnarounds including ■ turnaround strategy ■ organisational issues ■ implementation; and ■ financial restructuring, with guest presentations from Howard Dyer, Hamleys & Ascot Holdings Plc and Dr Stuart Slatter, LBS.
Contact: Julie Hough, Touche Ross & Co.
Tel: 0171 303 0004 Fax. 0171 303 5927
LONDON

FEBRUARY 5 - 7
Introduction to Capital Markets
The techniques and products used by borrowers, investors and intermediaries in the domestic and international capital markets. • Background and Development of Domestic and International Markets, Disintermediation, Securitisation, Regulatory Framework • Fixed/Floating Eurobonds, Government Bonds, Ratings • Currency and Interest Rate Risk • Equity Finance, Listings, Stock Exchanges. 3 Days £795.
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

FEBRUARY 6-7
Developing The New IT Scorecard: How to Measure and Manage the Business Value of Information Technology
Delivering business value is a recognised priority for IT. The challenge lies in translating this goal into a measurable strategy. Packed with the latest thinking and practice, this is the only UK event where you will discover how to develop and implement a balanced IT scorecard.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

FEBRUARY 7
Tax Planning with the Election in mind.
This morning seminar with lunch is designed to provide an economic and political and tax planning backdrop to a possible change of government in 1997. Planning now, particularly before 5 April 1996, could pay substantial dividends in safeguarding assets and income from a voracious taxman. Keynote Speaker The Right Honourable, The Lord Parkinson, other speakers from the worlds of taxation and economics.
Contact Juliet Moss for further information at Hughes Allen Chartered Accountants on Tel: 0171 583 7575 Fax: 0171 583 2081
LONDON

FEBRUARY 8 & 9
Advanced Documentary Credits
A course to meet the needs of bankers experienced in international trade who want to broaden their knowledge of complex transactions. • The Contractual Obligations of banks and their Customers • Transferable and Back-to-Back Credits • Standby Credits vs Guarantees • Risk, Avoidance, Fraud • Case Studies. 2 Days £595.
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

FEBRUARY 12 - 14
Basic Accounting Skills for Non-Financial Staff
Understanding the essentials of accounting and financial analysis. • Basic Accounting Principles, Financial Statements • Profit & Loss, Balance Sheet • Cashflow Budgeting, Management Accounts, Breakeven • Financial Evaluation, Key Ratios, Sensitivity Analysis • The 'Language of Finance'. 3 Days £650
Contact: Fairplace
Tel: 0171 329 0595 Fax. 0171 329 3853
LONDON

FEBRUARY 16
EVA - An integrated management framework for creating and enhancing shareholder value
An intensive executive seminar on the principles and application of Economic Value Added, led by two foremost authorities on shareholder value, Joel Stern & G Bennett Stewart, of Stern Stewart and Co
Contact: Business Intelligence
Tel: 0181-543-6565 Fax: 0181-544 9020
LONDON

FEBRUARY 19
European Competition Law: How it affects your business.
Join us at the above seminar to broaden your knowledge and understanding of the scope of competition law, the latest developments and its impact on your business. Speakers: Jacques Buhart and Colin Long from Coudert Brothers Paris / London. Guest Speaker: Commissioner Karel Van Miert.
Contact: Delores Broni, The Economist Conferences, Tel: + 44 (0) 171 830 1076 Fax: +44 (0) 171 409 3296.
LONDON

FEBRUARY 19
Oil and Gas in the Global economy - the outlook to the millennium
This Conference will look at the worldwide political, economic and environmental concerns that form the background to those who make business and investment decisions and their advisors - from exploration to refining, production to retailing and to those who serve the oil industry.
Contact: Conference Department, Institute of Petroleum
Tel: 0171 467 7100 Fax: 0171 255 1472
LONDON

FEBRUARY 19 - 20
Fixed Income Portfolio Management
This course is relevant to a broad range of financial services professionals including fund managers, investment bankers, analysts, brokers and investment advisers as well as corporate and local government treasurers. • Asset Risk Classification • Bonds • Hedging Portfolio Risks • Bond Derivatives. 2 Days £595
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

FEBRUARY 19 - 20
Introduction to Documentary Credits
This foundation course provides a sound understanding of the products, techniques and skills of trade finance. • Letters of Credit, Collections, Acceptances, Forfeiting, Factoring • Settlement, Documentation • Back-to-Back, Transferable and Revolving Credits • Countertrade, Credit Insurance. 2 Days £595
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

FEBRUARY 20
9th Oil Price Seminar
Managing the long-term risk
This popular event of IP week, sponsored by NYMEX, and aimed at traders, marketers, risk managers and forecasters will look at investors' risk associated with uncertainties of long-term project revenue. Exhibitions by oil price information suppliers.
Contact: Catherine Cosgrove
Institute of Petroleum
Tel: 0171 467 7111 Fax: 0171 255 1472
e-mail: InstPet@cityscape.co.uk
LONDON

FEBRUARY 20 - 21
Business & Security on the Internet
How can your business make money out of the Internet? What is being done about secure online payment? How do you create subscription based services? UNICOM - who have provided IT seminars for over 10 years - present IBM, BT, Unipalm-Pipex, Michael Debenham, The Guardian and others at the Anugraha manor house, Surrey.
t: 01895 256484 f: 01895 813095
email: John@unicom.co.uk
GREATER LONDON

FEBRUARY 20 - 21
Interactive Multimedia Marketing
Planning to incorporate the new media into your marketing strategy? Interested in the implications of inter-activity? From the grand scheme to the nitty-gritty, KPMG, Ogilvy & Mather, Emap, The Economist, Unipalm - Pipex and others provide a comprehensive insight into an area which no business can afford to neglect. For more details of this UNICOM seminar:
t: 01895 256484 f: 01895 813095
email: John@unicom.co.uk
LONDON

FEBRUARY 21 - 23
Introduction to Derivatives
It is vital for bankers at the leading edge to be fully acquainted with the risks and rewards of new and sophisticated market instruments. This course provides an excellent practical introduction to this complex area. • Background/Development of Derivatives Market • Currency/Interest Rate Derivatives • OTC vs Exchange Traded Options • Oil and Metal Swaps, FRA's. 3 Days £795.
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

FEBRUARY 22
Minimising the impact of decommissioning
This conference will concentrate on the key technical issues affecting the decommissioning of offshore installations. Public concern for the environmental issue has become paramount, but how can this be balanced against the competing factors of safety and cost?
Contact: Conference Dept.,
Institute of Petroleum
Tel: 0171 467 7100 Fax: 0171 255 1472
LONDON

FEBRUARY 22
Transforming Your Business
Managing business transformation to achieve better results can be a matter of survival. It presents real challenges for those driving the change process. At this event hear from four senior people who have been personally involved in the successful transformation of their own organisations. *Rolls Royce Motor Cars, London Electricity Services, Digital Equipment, National & Provincial Building Society.*
Contact: Susan Morgan at The Industrial Society.
Tel: 0171 839 4300, Fax 0171 839 3898
LONDON

FEBRUARY 25 - 27
Investing Worldwide VII Emerging Markets: Practical Insights and New Technologies
General sessions will discuss research and portfolio management techniques applicable to emerging and pre-emerging markets around the world. A series of country-specific workshops will focus on the unique characteristics of individual emerging markets.
Contact: AIMR in the USA: Internet: http://www.aimr.com/aimr.html
Tel: 1(804)980-3668 Fax: 1(804)980-9755
E-mail: info@aimr.com
LONDON

FEBRUARY 26 & 27
FT New Media & Broadcasting Conference
The fifteenth FT Conference will explore how the convergence of computer, telecommunications and broadcasting technology is opening up a huge range of new business opportunities, ranging from 500 channel digital satellite services to video-on-demand by way of cable telecommunications.
Enquiries: FT Conferences
Tel: 0171 896 2626 Fax: 0171 896 2696/2697
LONDON

FEBRUARY 27
City Regulation - The Financial Services Act After Ten Years
features such authorities as Mrs Angela Knight of the Treasury, Stuart Bell of the Labour Party, John Plender and Andrew Winckler. Sponsors: KPMG, Clifford Chance, CSFI and London Guildhall University.
Information from: Cityforum Ltd
Tel: 01225 466744 Fax: 01225 442903
LONDON

MARCH 6
World Class Credit
The theme of the 1996 Institute of Credit Management National Conference will focus on the contribution credit management can make to help build the performance of a company and improve world competitiveness. Speakers include: Dennis Turner, Head of Business Economics, Midland Bank Plc; Richard Lapthorne, Finance Director, British Aerospace Plc; Harry Reilly, Finance Director, Land Rover Vehicles.
Contact Sheila Simmons at ICM, Tel: 01780 721888 or Fax: 01780 721333
LONDON

MARCH 13
Understanding Deregulation
One day conference to explain the Deregulation process. Speakers include: The Rt Hon Roger Freeman MP, Chancellor of the Duchy of Lancaster; Richard Caborn MP, Labour spokesperson; Robert Rodgers, Clerk to the Deregulation Committee.
Contact Jackie Nixon, The House Magazine.
Tel: 0171 233 1388 Fax: 0171 976 0861
LONDON

MARCH 18
The Foreign Exchange Market: Surviving the Revolution
Major international conference focusing on some of the major changes which will affect the FX professional in the next few years. In particular the conference will look at two areas: the work currently being undertaken to make European Monetary Union a practical proposition and secondly the changing structure of the fx market. Organised by Dow Jones Telerate in association with Cognotec Autodealing and Technical Data.
Contact: Arielle Savona, Dow Jones Telerate
Tel: 0171 832 9737 Fax: 0171 353 2791
LONDON

MARCH 20
Industry Forum Labour & SMEs: The Growth Agenda
One-Day Conference. Speakers: Rt Hon Tony Blair MP, Rt Hon Margaret Beckett MP, Barbara Roche MP, Tim Melville-Ross, Michael Hynes, Stan Mendham (FPB), Ian Peters (Nat West), Stephen Hall (BVCA), Ron Taylor (BCC).
Details & Booking call 0171-222 1280 / fax - 1278
LONDON

MARCH 21 & 22
FT World Steel - Towards a Truly Global Industry?
The second World Steel conference, organised by FT Conferences in association with CRU International Limited, will discuss the latest structural developments in the sector and consider supply, demand and trade issues. These themes will be addressed from both user's and producer's perspectives.
Enquiries: FT Conference
Tel: 0171 814 9770 Fax: 0171 873 3975/3969
LONDON

MARCH 26 & 27
Leveraging Knowledge for Sustainable Advantage
A two-day conference exploring ways in which companies can capture, share and exploit their organisational knowledge for breakthroughs in business performance. Practical strategies for converting individual know-how into an organisational resource.
Contact Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

Why Mac users fear the future

Tim Jackson

Personal computers are hard to like. When they fail to work as expected, they are irritating, counter-intuitive, and a tremendous waste of time. When they do work, on the other hand, computers are just *there*. They do the job; but it is the document, the drawing, the spreadsheet, the e-mail message or the Web page that is interesting.

That is probably the view that most people take of their computers, but it is by no means universal.

A small minority of computers – the ten per cent or so that are Apple Macintoshes – arouse real enthusiasm, and sometimes even love, in their owners. The Mac user can be spotted a mile off. He or she will talk about the neatness of the computer's design; about its intuitiveness and ease of use; and about the way in which you can switch on a Mac and start work right away without wasting time learning about computers or the software.

It will not be surprising, therefore, if Mac users react more powerfully to the news of Apple's problems than others do. While the rest of the world is largely indifferent to the losses that the company revealed last week, and to the rush for the doors that those losses provoked among the company's senior executives, Mac users can be forgiven for being more wistful. For them, a world without Apple – a prospect that is now more real than ever before – would be a very different world from that of today.

When the Mac first hit the market, its principal competition was the IBM platform, which ran an operating system so hurriedly and shoddily designed that the company from which Bill Gates bought it on the cheap called it QDOS – Quick and Dirty Operating System.

The later commercial success of the PC standard, which curtailed the Apple offering to a tenth of the market, gave Mac owners a siege mentality, combining smug contemplation of their own virtue with justified anger at the victory of a clearly inferior technology.

Business pundits warned that by refusing to follow IBM's decision to license its technology to all comers, Apple had condemned itself to spreading research and development costs over a far smaller sales volume and signed its own death warrant.

Yet Apple's products continued to command a price premium which brought it a good living. The PowerBook range of notebook computers was an outstanding success and software houses' willingness to develop products for the Mac platform was surprising given its market share.

A world without Apple would be a very different world

That party ended abruptly when Microsoft unveiled Windows 95 last August. Apple and its acolytes were derisive. The company even sent out earplugs to journalists to help them escape Microsft's "noise", and published newspaper ads trying to remind the world that the features which Microsoft was touting as new and exciting had already been available on the Mac for years.

In a literal sense, that was true. But Apple's approach missed the point in two important respects. First, it was only Apple users who cared whether the good things in Windows 95 had been invented at Apple. (Even they faced some difficulty on this point, since many of the important features of the Mac were actually developed at Xerox's Palo Alto research centre in the 1970s.) To everyone else, the dispute over the fine points was as pointless as the wars in *Gulliver's Travels* between the Little Endians and the Big Endians, who differed about whether one should break open a boiled egg at its pointed end.

The second respect in which Apple's approach was misguided was that, by drawing attention to the similarities between 1995 vintage Microsoft technology and 1985 vintage Macintosh technology, Apple unwittingly underlined its own slowness in moving forward from the Macintosh operating system.

Although not many customers are aware of it, Apple does have a next-generation operating system in development.

The new OS, which is now being released to developers for evaluation, was intended as a Windows 95-killer. But the project has run so late that Windows 95 will probably achieve a commanding position before the launch of the new product – not only with consumers, but also with software houses. Apple's problem is that to win back market share from from Microsoft, the new operating system will now have to be quite outstandingly good.

The pessimistic conclusion is that the company faces a vicious spiral of declining market share, rising costs, shrinking resources and greater difficulty in delivering innovative technologies – and that though the Mac and its descendants will undoubtedly be around for a while, the battle for the PC desktop can be formally declared over.

A more sanguine line of argument form Apple's point of view is that Apple has confounded its critics before. Even after the most recent defections, the company's ranks include some of the world's most talented computer scientists. Insiders also believe that the company possesses a number of outstanding technologies that will make Apple a takeover target even if its core computer business becomes fundamentally unprofitable.

Whichever view is correct, Apple and its creators still deserve thanks from even the least interested computer user. It was only the irritating example of the Mac that prompted Microsoft to develop a half-decent operating system.

What matters from now is simply that some company should act the role of thorn in Microsoft's side for the future. Some say that Netscape's Navigator is moving in to fill the void. Apple's top management and its shareholders must hope that is mistaken – and that the Mac's descendants will again set the computer industry alight.

Tim.Jackson@pobox.com

A renaissance of radio for emerging markets

Information affluence for all is nearer, writes **Raymond Snoddy**

Mr Noah Samara gave up his doctorate studies on the Renaissance to concentrate on something more practical – the emerging field of space and satellite law.

The change of direction has led him to try to create one of the most ambitious communications projects ever put together for radio: the launch of no less than three digital satellites to broadcast hundreds of high quality radio channels to portable digital radio sets throughout the emerging world markets of Central and South America, the Middle East, Asia and the Far East.

More than $650m (£422m) has been raised for the WorldSpace project, the satellites have been ordered from an international consortium led by Alcatel Espace, the Alcatel Telecom subsidiary, and the first satellite is due to be operational by the middle of 1998.

Samara, chairman and chief executive of WorldSpace, learned enough about the Renaissance to appreciate the importance of the accumulation of information and knowledge that preceded it, particularly through the rediscovery of lost texts of the Latin world.

A US citizen of Ethopian-Sudanese origin, Samara is equally convinced of the importance of increasing information flows to the developing world, and in particular to people who often have to rely on little more than crackly short wave radio for their communication with the outside world.

"Information is a necessary though not a sufficient engine for development. This is a project that will deliver information," says Samara, who has used the American investment bank Morgan Stanley to raise the finance, so far, from wealthy private individuals. A public offering to raise a further $200m is expected.

The digital radio choice that the WorldSpace system will be able to provide will be unparalled. Each of the three satellites – one aimed at Africa, one South America and the other Asia – will be capable of broadcasting 288 channels suitable for talk radio. The capacity can alternatively be used for 144 channels of mono-music or 72 channels of near CD quality stereo sound, or more probably a mixture of all three.

WorldSpace is a private-sector profit-making venture, but one which is likely also to attract contracts with governments and official bodies.

Samara believes it is possible to create a radio network "with vision and a sense of social responsibility."

WorldSpace, based in Washington DC, will lease most of its capacity to broadcasters but will reserve up to 90 channels for a subscription radio service (to be known as World Premier) which will be aimed at credit card holders in the transmission area. This will offer data, paging services and even the delivery of text and video to the new receivers.

The broadcast offerings are likely to range from pop music and entertainment to international broadcasters and national broadcasters who have difficulty reaching all their national territory using conventional transmitters.

The WorldSpace chairman says he has just signed an agreement with the Ghana Broadcasting Corporation to broadcast its services. He is talking to the World Health Organisation about the possibility of a channel and hopes that organisations such as the BBC World Service will also decide to be customers.

The key to the success or failure of the venture, and the most difficult problem to solve, is ensuring that the digital portable radios are affordable

The key to the success or failure of the venture, and the most difficult problem to solve, is ensuring that the digital portable radios are affordable for the potential audience.

"We had to get the cost as low as we could and use as much off-the-shelf technology as possible," says Samara.

The target to begin with is that the radios should cost $100 at retail based on initial orders of between 1m and 2m sets.

"Over five years we should get closer to $50. We are talking about a market place which already has over 1bn radio sets," the WorldSpace chairman argues.

Portable sets would be pointed in the direction of the satellite and the signal would be picked up through an array of patches embedded on the surface of the radio case. A detachable aerial could also be mounted on a small tripod on the ground or attached to a window frame. "The radio will be extremely easy to use: just point the flat antenna in the approximate direction of the satellite and enter the programme identification number on the small numerical keyboard," WorldSpace says. The listener will then have noise-free, fade free reception.

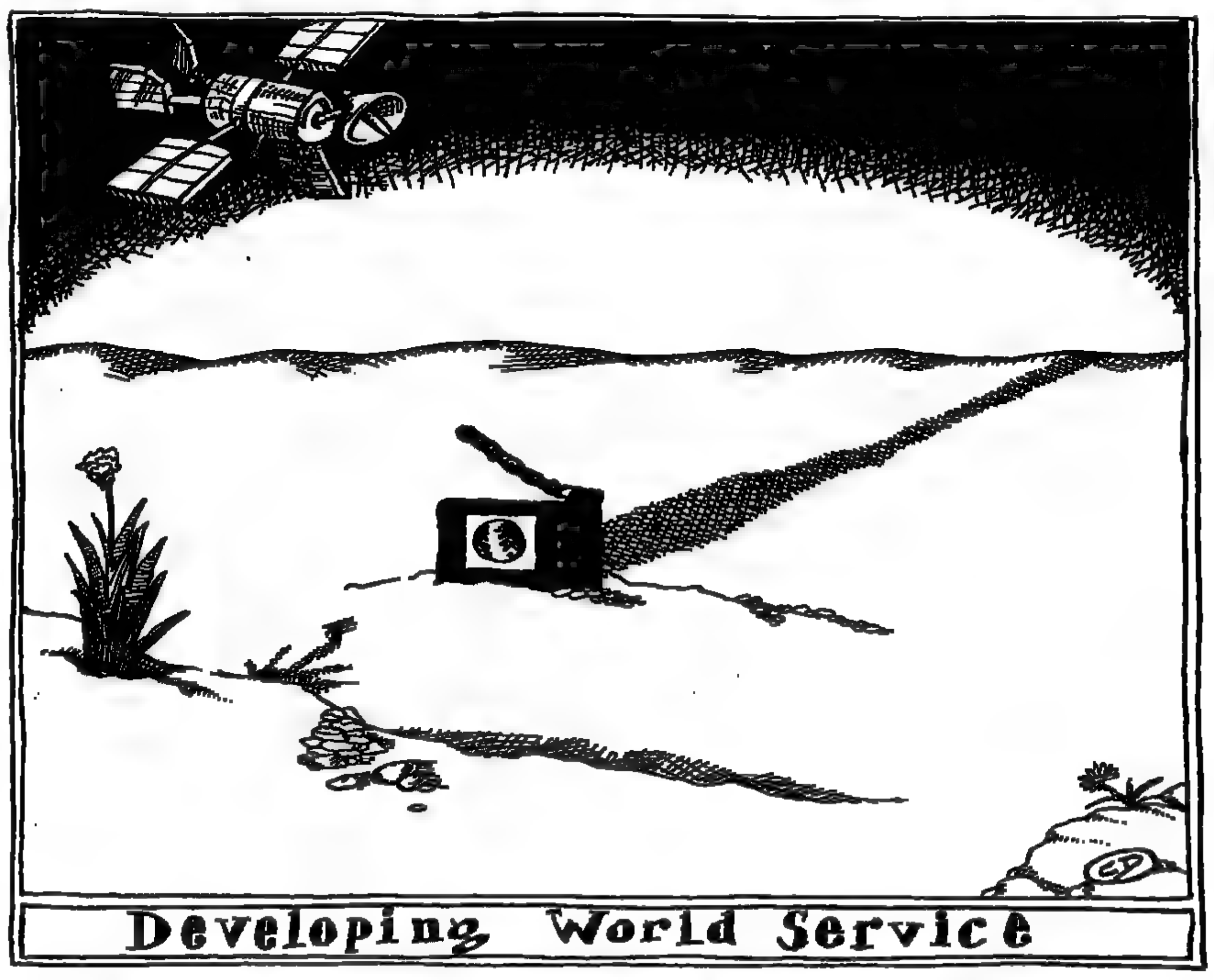
Dr Karl-Heinz Brandenburg from the Fraunhoffer Institute in Erlangen, Germany and a specialist in digital radio, has been involved in investigating the WorldSpace proposals for a $100 receiver.

"At first we were suspicious. We did not think it could be done, but we have changed our mind. It will still be tough and it means using all ideas to reduce price. But it is possible," said Brandenburg.

The Fraunhoffer Institute, which has been involved in drawing up new international standards for digital radio compression technology, is now under contract from Alcatel to work on various options and prototypes. During the evaluation of the WorldSpace proposition, the institute even came up with some ideas of its own to reduce the cost.

The plan is to have all three WorldSpace satellites in operation before the end of the century.

"This project is fundamental. It's going to change the world. It will deliver all kinds of information and will create information affluence in regions where there is now an information dearth," Samara promises.



First facts about Europe's Net

By Alan Cane

Today's European Internet user is likely to be aged between 22 and 36, earning between $20,000 (£13,000) and $30,000 a year and spends between six and 10 hours a week in cyberspace. He (only 12 per cent of users are female) may have made a purchase via the World Wide Web, the fast-growing portion of the Internet offering full colour images, sound and moving video pictures – and would be much more likely to do so if security were improved.

These are some of the results of a survey by Durlacher, the London stockbroker, as part of a substantial report on the investment possibilities of the Internet in 1996. Among its funding are:

- By 2002, there will be more than 200m people worldwide connected to the Internet. There will be 150m global subscriptions to on-line services by the same date.
- The first wave of successful, that is, profitable, Internet-related businesses will come from Internet access service provision, software application provision, consultancy and hardware such as network servers and modems. The second wave will be dominated by content provision.
- Retail sales on the Internet are still very low, but will increase exponentially with the arrival of commonly accepted security standards by mid-1996.
- The most popular content on the Internet is sex with research, travel and regional content some way behind. Of the 25 most frequently accessed Internet groups, 10 are dedicated to circulating erotic pictures.

Is the Internet, therefore, a sound investment prospect? Mr David Tabizel, director of research at Durlacher Multimedia and co-author of the report, says that US experience suggests investors have to spread their funds over 30 Internet companies to be sure of a winner. That success, however, would pay for all the rest.

Mr Tabizel believes the brightest new investment prospect is for intelligent software agents capable of searching the Internet for information, products and services. The report suggests the major telecommunications companies are not yet taking the Internet seriously enough, although he says the situation is changing.

Last week, for example, France Telecom said it would provide access to the Internet from anywhere in France for the cost of a local telephone call.

"With hugely attractive potential margins of around 30 per cent," the report says, the companies "can be expected to move aggressively into the Internet provision basis".

The barriers include the possibility of referral to competition authorities and a lack of the necessary hardware and software skills.

The report predicts British Telecommunications and Microsoft, the US software giant, will eventually share at least 25 per cent of the UK market.

The Internet in 1996: An Investment Perspective. Durlacher Multimedia, 10 Throgmorton Avenue, London EC 2N 2DL. 350 including regular updates.

Cyber sightings

- Ten thousand management consultants in one place may sound like a Monty Pythonesque vision of Hell, but ConsultantsNet (*www.enterprise support.co.uk*) offers just that. The database covers every management discipline and the Web site matches needs with the available UK talent. There's a £250 fee for project placement and for consultants joining the database.
- If your management tastes are more esoteric, The Foundation for Performance Management (*www.fpm.com*) is an international organisation of directors, consultants, academics, and government bodies, committed to extending the measurement of business performance beyond conventional accounting and financial procedures. Interesting site, with a directory of members, discussion groups and resource links.
- Paris-based World Media's site (*www.worldmedia.fr/wm*) has information on the situation in the former Yugoslavia, including Sarajevo Online, highlights from the Bosnian press translated into English. US state department information on Bosnia can be seen through the Federal News Service's Capitolwatch (*www.capitolwatch.com*), which also has a good range of political and election links.
- Venture Capital report (*www.demon.co.uk/vcr1978*) is a UK investment opportunity newsletter, updated monthly, which is available on a free trial subscription basis for potential investors. Subscribers pay £300 a year, while entrepreneurs can have their business plans listed.
- Findex (*www.findex.com*), put up by the St Clair Financial Index, is a searchable database of financial media and institutions which is a useful, easy-to-use site once you get past the 'lobby'. It has the distinction of including Citibank's investment guide to Trinidad and Tobago, which contains more information on that country than any reasonable person could use in a lifetime. Trust me.
- Business Beijing (*www.americasia.com*) bills itself as The Insider's Gateway to China. An online source for business, government and travel data about mainland China. A nice, browsable site, it features information on real estate, business opportunities and recent laws affecting foreign investors.
- Finally – and only if you've got a couple of hours spare – check out The Riddler (*www.riddler.com*) from Interactive Imaginations. It's a series of fascinating virtual treasure hunt and trivia question games that require more than a bit of attention. Click on the game board and settle back.

steve@mcgook.demon.co.uk

Financial Times on the World Wide Web
www.ft.com
or
www.usa.ft.com
Updated daily

BUSINESS TRAVEL

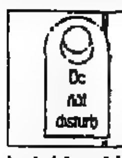
Exhibition of advice

Regular travellers and corporate buyers will be able to get advice and updates at the Business Travel 96 exhibition, which runs from February 14 to February 16 at London's Business Design Centre.

More than £20bn is spent each year on business travel, according to Alistair Spurr, director of the exhibition, and seminars at the exhibition will include negotiating with suppliers, planning and arranging business travel, and managing travel expenses.

For travellers there is advice on security and jet lag, getting upgraded and negotiating hotel discounts.

Hotel bookings increase



Rising demand from business travellers has led to an increase in hotel bookings of 45 per cent by travel group American Express in spite of an increase in hotel rates of between 10 per cent and 15 per cent, says the company.

It adds that demand for four-star and five-star hotels is particularly strong. However, this is not such good news for travellers as it means that hotels can sell their rooms for the full, or "rack" rate rather than offering discounts.

Arms and the traveller

The well-equipped visitor to South Africa carries a gun, an archery set or at least a pair of handcuffs, says the company that runs the airports in one of the world's most crime-ridden countries.

Passengers surrendered 2,488 firearms to security staff at Johannesburg International airport during November and December, and more than 800 knives were confiscated from international and domestic passengers in the same period.

The airport says it believes the seizures indicate concern over South Africa's high violent crime rate.

First-class fare offer

First-class passengers between London and three destinations in Thailand, including the capital Bangkok, can take a companion for half-price until the end of March.

The fares with Thai Airways are valid for a minimum stay of seven days and a maximum of three months, and passengers must travel together on flights. Return fares to Bangkok start from £2,999.

● Air Canada is lifting capacity on its routes between the UK and Canada with additional flights from the UK.

The airline, one of several to offer a hybrid business/first class service – "Executive First" – from London, has one-way business class fares from £1,171 to Toronto, its main business destination in Canada.

● Scandinavian Airlines System is to add two new routes from Copenhagen with daily flights to Newcastle upon Tyne in north-east England and Bologna in Italy. The services are due to start in March.

● US carrier Delta said it will begin nonstop service on four international routes with the introduction of its 1996 summer schedule.

Non-stop flights will be available between Atlanta and Vienna, Frankfurt and Bucharest, Frankfurt and St Petersburg, and New York and Brussels.

● Another US airline, USAir, is cutting some fares in eastern USA by up to 40 per cent until February 14. At the same time Northwest Airlines and KLM, the Dutch carrier, is cutting fares from the US to European destinations.

USAir fares will start from $59 (£38) for weekday travel. Northwest/KLM return fares include Los Angeles to Paris for $428 and Des Moines to London for $348.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	14	11	9	10	9
Hong Kong	22	21	23	22	20
London	11	9	8	8	7
Frankfurt	2	0	-2	1	3
New York	2	-1	1	9	13
L Angeles	20	18	18	20	18
Milan	8	6	7	8	5
Paris	7	6	4	2	2
Zurich	2	0	0	-1	-1

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

The benefits of foreign exchange

When a US and British hotel manager swapped jobs for a week, both learned more than they expected to, says Scheherazade Daneshkhu

The international hotel industry is so hugely competitive that it is heartening to hear that the general managers of two very different hotels recently acknowledged that they might learn something from each other.

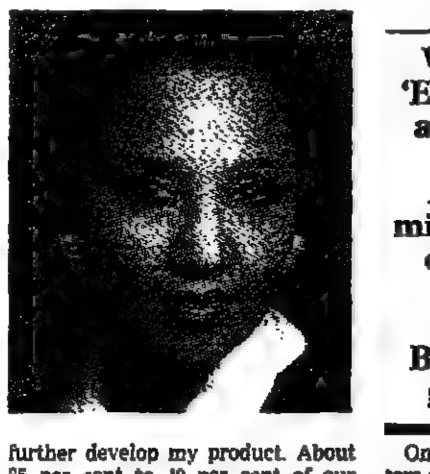
The Athenaeum Hotel and Apartments in London's Piccadilly is a small privately owned hotel which has business travellers from the US as the majority of its guests. Sally Bulloch, general manager, says one way of finding out if the hotel was giving customers what they wanted was to compare it with what they are offered in the US.

She suggested swapping jobs for a week with Valerie Ferguson, general manager of the Ritz-Carlton in Atlanta, Georgia, and secretary of the American Hotel and Motel Association.

Atlanta is due to host the Olympic games this year, and the city of about 3m people is expecting a flood of 2m visitors. Like most people who live and work in Atlanta, Ms Ferguson sees the games as an opportunity for the city to capitalise internationally on the success it has already had in establishing itself as a business centre.

"For us to be awarded the Olympics said something about how Atlanta is viewed internationally," she says. "But it will be the final step in a push to say to the world, 'yes, you were right to have chosen us'."

With the prospect of so many foreign visitors, Ferguson decided to take up Bulloch's offer and go ahead with the swap. She says: "I had no idea what I would get out of it but I saw it was an opportunity to gain an insight into how I could further develop my product. About 35 per cent to 40 per cent of our guests are international and I wanted to walk away with a better idea of how to service that business and how to build it up."



Valerie Ferguson: 'European travellers are not as vocal as Americans. In America, a guest might go to the front desk and say 'my breakfast was terrible', but the British are just not going to do that'

Business travel is increasingly based on the notion of servicing global travellers with similar wants and needs. Ms Ferguson says, however, that there can be enormous differences.

"One thing that has left an indelible impression is that European travellers are not as vocal as Americans – you have to take more time to pull the information out. In America, a guest might go to the front desk and say 'my breakfast was terrible', but the British are just not going to do that. We've got to find a way of getting that feedback, rather than make the assumption that everything is OK."

One way might be to contact visitors after they have left the hotel. "I don't think they will speak to you unless something major happens but once they get home or to the office, they might," she says.

Guests with limited English could be inhibited by language difficulties, and Ms Ferguson believes one of her achievements over the past five years at the Ritz-Carlton is to ensure that staff speaking a number of languages are available at all times.

She is impressed by the efforts made at the Athenaeum to make guests feel at home. "There are all these reminders that you are at home – whether it's a bowl of apples or wonderful nick-nacks in the lobby. We like to think you can get a homely atmosphere in a Ritz-Carlton – we have afternoon teas and a special breakfast for Japanese guests – but customers don't want it so comfortable that it's like an old pair of shoes."

Sally Bulloch: 'We can sometimes be too British. It took me 10 years to get a hamburger on our room-service menu. I kept suggesting guests wanted it, and kept being told 'that is not what we do at the Athenaeum'

For her part, Sally Bulloch of the Athenaeum believes there is a difference in attention to detail. "It's higher over here. For instance, I've often found that if there is a bowl of fruit in an American hotel, it tends to stay there all week, whereas we change it every day." But she admires the informality of US hospitality, and would like to incorporate more of it in the hotel. "We can sometimes be too British," says Ms Bulloch. "It took me 10 years to get a hamburger on our room-service menu. I kept suggesting that was what our guests wanted but kept being told 'that is not what we do at the Athenaeum'."

She adds: "Many travellers want a quick tea or coffee but do not want to sit at a table. At the Ritz-Carlton outside the breakfast room they had this wonderful silver urn and attractive cups, not paper cups, so people could just have some coffee. It's very American but then why not give our American guests what they want rather than . . . what we think they should have?"

Despite the difference in size between the two hotels – the Ritz-Carlton has 457 rooms and the Athenaeum has 157 – Ms Ferguson says the day-to-day management is very similar. "It's the same, except for the British accent." But decisions can made more quickly in a smaller hotel, she says. "Product development is managed quite differently in an independent hotel from a chain. While our standards are very similar and our company is decentralised with a lot of decisions made at the hotel, the decision-making process here is faster – we're trying to regain that entrepreneurial spirit."

Ms Bulloch says she has been struck by the amount of time spent by senior staff in US hotels on administration. "My impression has always been that senior staff tend to be in meetings or handling paperwork. But you don't know what's going on unless you are on the floor, and guests often want to meet the managers," she says.

Ms Ferguson says she is going back to Atlanta with "an increased awareness of the importance of face-to-face contact. Each employee here tries to establish a relationship with the guest; they try and remember the guest's name."

Both would like to extend the swap to other staff. "I would eventually like some of our housekeepers and reception staff to do the swap and to experience what it's like to travel as a guest – especially when you are jetlagged," says Ms Bulloch. "There's nothing worse than arriving at 7.30am and a smiling girl at reception says, 'Sorry, your room won't be ready till 11' and you want to kill her. Since lots of people leave early, we get the maids to start at 6am instead of at 8am. With three maids, a room can be ready in eight minutes."

She goes on: "We ought to be able to understand our guests' needs. For example, when you are in the US, you notice how people will give detailed orders in a restaurant. I don't want our staff not to know what a guest is talking about if they ask for a low-sodium meal."

Ms Ferguson would like to use the idea of a swap as an incentive to staff by offering it to the hotel's employee of the year. "A lot of our people don't get to travel."

Airline flies onto Internet

British Midland has set up what it says is one of the world's first systems which enables passengers to book and pay for flights on the Internet.

While other airlines provide flight and fare information on the Internet, most have drawn back from providing a full booking service. This is because of fears that customers' credit card details are not sufficiently secure on the Internet.

The airline, however, says encryption technology allows its customers to tap their credit card details on to their computers without worrying that they are going to fall into a hacker's hands.

To increase security further, separate encryption systems are used for the credit card number and the expiry date and user's name.

Credit card numbers entered into the system are automatically checked against a worldwide database of stolen credit cards.

To guard against unauthorised card users, such as children, running up large bills for tickets, British Midland only allows two bookings on any card per working day.

Another security measure for bookings on the Internet is to insist that, when bookings are made, at least one of the passengers travelling is the cardholder.

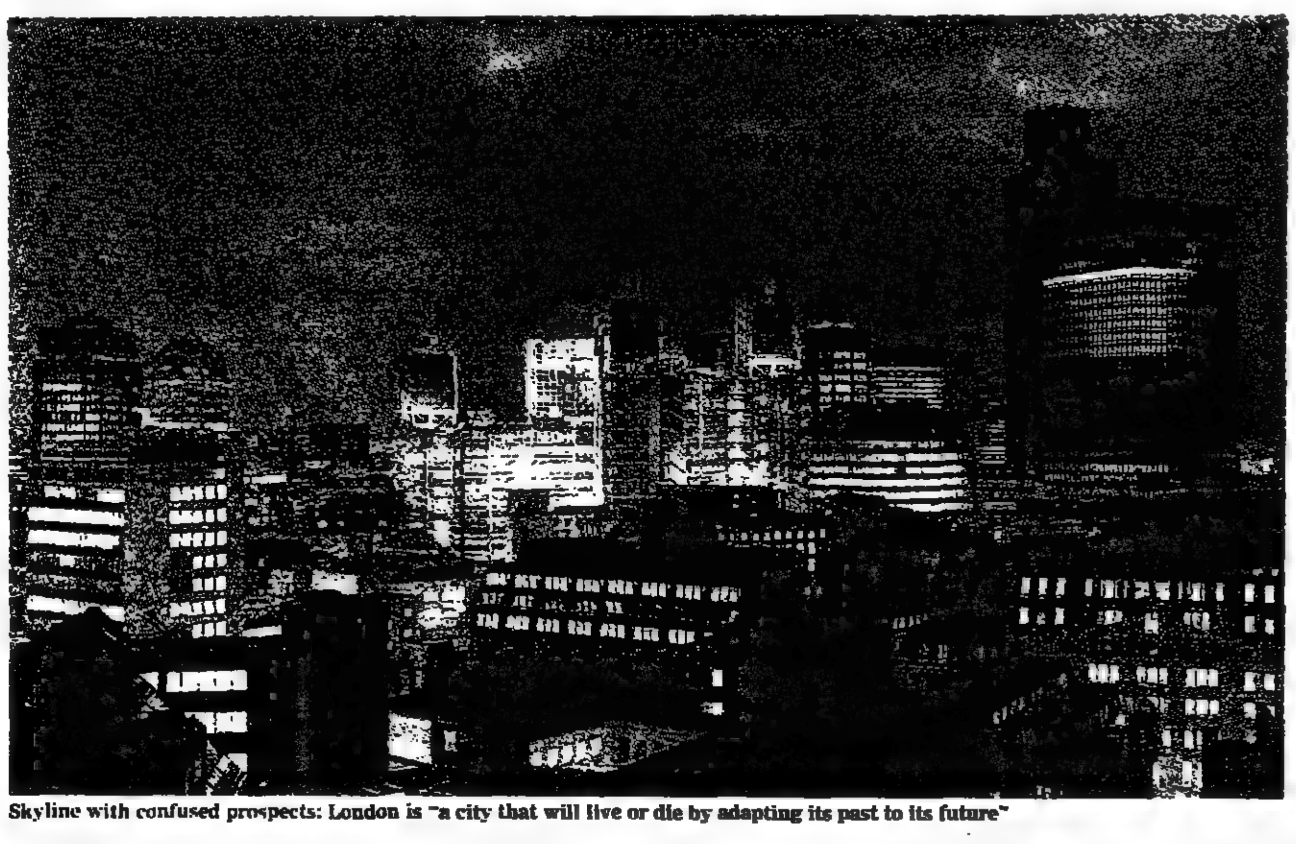
Michael Skapinker

ARCHITECTURE / SPORT

London's outlook still unclear

Architects should pay attention to the city's people, writes Colin Amery

London is up for grabs. The only important capital city in the western world with no elected body with overall authority for its welfare has an uncertain future as it approaches the millennium. This uncertainty is not just environmental or architectural – it is about the life of the whole city in the future. The Corporation of London, The Architecture Foundation and the London Evening Standard seem to have realised, by a process of osmosis, that the people of London are worried about the future of their city as they struggle about its nineteenth century infrastructure and cope with its appalling public transport system. These three bodies have decided to hold a series of monthly public debates, starting this Wednesday evening on the subject of "London in the 21st Century". There will be seven debates to be held in Central Hall, Westminster between January and July.



Skyline with confused prospects: London is "a city that will live or die by adapting its past to its future"

On Wednesday the Secretary of State for the Environment, Mr John Gummer; the environmentalist and philosopher M. Herbert Giradet; Mr Michael Cassidy of the Corporation of the City of London and the architect Sir Richard Rogers will debate the future survival of London.

Each speaker will air his own worries. Mr Gummer will talk about his strategy for the Thames and his belief that London is a collection of urban villages. He will tell us that there is a new planning guidance note to encourage mixed uses in cities but he will almost certainly not mention the quangos and committees that fail to replace any sensible form of democratically structured government for London. He will probably not mention the consent he has just given to a Richard Rogers' designed tower of flats in the heart of Old Battersea's conservation area which seems to contradict everything he has said about the sanctity of the River Thames and its views. He will probably not want to be questioned too closely about the great stock of government properties that are for sale, from the Royal Naval College in Greenwich to the barracks at Woolwich and the numerous ex-hospitals and asylums dotted around the suburbs.

Mr Michael Cassidy, it is generally known, is worried that the City of London may lose out as computer technology makes the proximity of offices to the heart of the city less and less necessary. The City is also nervously looking towards the likelihood of a Labour government after the next election. Will Prime Minister Blair decide to reinstate a local government for the whole of London and abolish the City Corporation once and for all ? And what of the great monuments of the city and their settings. Will Mr Cassidy realise that no one wants more acres of offices around Saint Paul's cathedral? With the future of the current Paternoster scheme in the balance, it is time that the City decided to stop competing with Canary Wharf and the West End and saw the intrinsic merits of its own character.

If only the City Corporation had worked with the developers of London's Docklands instead of competing with them. We could have had a more civilised City of London and a park-like regeneration of the old docks as fine as Regent's Park or Holland Park were in their day. The lack of vision for the eastwards development of London remains a tragedy and it is precisely the area where the City of London could have taken a lead. Instead the City built walls of offices around itself – just in case Frankfurt should overtake it. What the City could offer the world is a beautiful environment, where the traffic is controlled, the historic buildings are looked after and the surroundings are more civilised than Tokyo or New York. But there is a long way to go.

The architect of the Lloyd's building Sir Richard Rogers will be speaking at more than one of these debates and we can expect to hear much recycling of his Reith Lectures. He is a very contradictory character – he cares about cities, after all he is half Italian, but he also cares about imposing on London a highly unsuitable personal vision that has not really developed since Lloyd's. His scheme to put a huge glass roof over the South Bank has yet to prove its practicability. He will be attempting to dazzle us with high-tech schemes for the Thames and ambitious proposals to link the river to the heart of Covent Garden. His vision is very much the vision of the 1960's - we can expect a lot of rusting Pompidou Centres scattered without subtlety among our ancient streets.

Each month there will be a different subject for debate. In February, it is Thames bridges; in March, parks and public spaces; in April, Mr Tony Blair will be sharing his vision of the millennium with us; in May, it is transport and in June, culture. The series of debates ends in July with the one subject that should underlie the whole programme: housing. At the beginning of the twentieth century London housing under the influence of the London County Council was of such a high standard that it led the world. As we approach the twenty-first century the standard is low, the intellectual debate is poor and there is no County of London any more.

It is sad that there is no debate that concerns the history of London because it is a city that will live or die by adapting its past to the future. Its history is why it is the capital – and there is nothing in this series about its role as a capital of government as well as commerce. The vital thing, in these undemocratic days in London, is for the public debate to take place – politicians and fashionable architects underestimate the people of London at their peril.

Full details of and free tickets for this series of debates can be obtained from : Public Forum Debates Ticket Office, Corporation of London, Guildhall, London, EC2P 2EJ. Telephone 0171 332 3770. The first one in January 17 at Central Hall, Storeys Gate, Westminster, S.W.1. at 6.30pm.

Guests who opt to sit out the Games

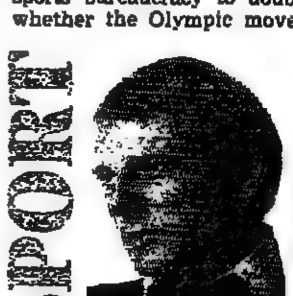
Almost more interesting than the list of 11 cities bidding to host the 2004 Olympic Games are the candidates who decided not to throw their hats into the ring – or should it be five rings? The contenders' field is not exactly packed with heavy-hitters, so the Olympics nine years from now is a highly winnable prize.

It is worth wondering about the absentees before considering the likely winners. Beijing is the most conspicuous non-runner in the 2004 Stakes. The Chinese hierarchy was undoubtedly shocked and humiliated by the vote of the International Olympic Committee two-and-a-half years ago to award the Millennium Games to Sydney. But pragmatism is the way of the middle kingdom and many observers were doubtful that Beijing's ambitions for the Olympics lay in 2008 or beyond. Last autumn no less than nine Asian members of the IOC took the opportunity of a big sports conference in Seoul to deliver a joint plea to the Beijing authorities to bring forward their Olympic bid. Dr Un Yong Kim of Korea, an IOC vice-president and possible successor to President Samaranch, was the prime mover in the letter sent to Jiang Zemin and Li Peng, the two most powerful Chinese leaders. The Chinese IOC member Zhenliang was careful to emphasise – as the emissary entrusted with the message for Beijing – that no firm decision had yet been taken concerning the games. He stressed the hurt caused by losing by just two votes to the Australians was now forgotten. So other factors are likely to have been at work.

The most important may have been September 5, 1997, the date at which the IOC meet to choose the host city from a short list of four. That is only three months after the British government hands Hong Kong back to China.

During that transition the eyes and ears of the world's media will be on Hong Kong and the least piece of adverse publicity will be magnified. Beijing was shrewdly advised that the closing stages of a second Olympic "run" at such a time would offer too many hostages to fortune.

Britain's lack of a candidature for the 2004 Games is not due to concern over whether the government's spin-doctors can manage the Hong Kong issue, but may be instead down to sheer weariness and funk. Unsuccessful campaigns by Manchester (twice) and Birmingham in the past decade led many in the UK's sports bureaucracy to doubt whether the Olympic movement saw Britain as useful for anything but providing competitors.



KEITH WHEATLEY

Just before Christmas the country's National Olympic Committee took a policy decision to prepare a London-based bid for 2008. Many influential participants were doubtful about a four-year break from the campaign, fearing momentum and commitment built up since the early 1980s would be dissipated.

IOC members said privately that Britain was missing a huge opportunity in a weak field if it failed to bid again. But the domestic tangle over the failure to agree a venue for the new National Stadium may have made the pull-out inevitable. The decision, timetabled for last October, was postponed, and if the Sports Council were to eventually plump for a Manchester site rather than a re-vamped Wembley, it would have left a London-based Olympic bid looking distinctly naked.

The twin possibilities of a European city winning the 2004 Olympics and a patient yet resurgent Beijing being unstoppable for 2008 could lead to London's next realistic chance coming in 2012. Paris is the other notable absentee from the candidates list. A year ago the French capital seemed likely to field a serious challenge for the games following Sydney. But the current discord between public and private sectors in France would scarcely help a vast undertaking which must rest in exactly that niche. Lille has been offered as a lacklustre, no-chance alternative.

Turning to the actual candidates, Cape Town and Athens are the front-runners. The African site appeals to the future, the Greek capital to those with a taste for nostalgia. Athens remains bitter over the refusal of the IOC to grant it the 1996 games, which will be the 100th anniversary of the re-birth of the modern Olympics in the city.

In southern Africa the Olympic bid from Cape Town remains a fierce bone of contention within the ruling African National Congress. Treasury ministers and others with infrastructure responsibilities are worried that an overall budget of US$1.1bn is too optimistic. They fear a spending juggernaut, careering through an already fragile South African economy. The IOC's decision to cut the host city's share of TV revenues from 60 per cent to 49 per cent is, superficially, a blow to Cape Town's hopes. But the recent massive escalation in broadcast fees for sports events may more than compensate for a smaller slice of the pie. News that Rupert Murdoch is offering US$2bn to the IOC for European rights alone is cheering the bulls of Cape Town, who believe that an Olympics there is best-seen as a revenue source not a cost. "After the euphoria of a new democracy, there's now a realisation that there isn't going to be a Marshall Plan for South Africa," said Kevin Kevaney, a leading strategist in the Cape Town bid committee. "We're spreading the gospel that the Olympics is our own Marshall Plan."

ARTS

OPENINGS

LEIPZIG

Marino Marini (1901-80) was one of the leading Italian sculptors of the 20th century. Trained in Florence and Paris, he was much influenced by Etruscan and Archaic Greek art, and became renowned for his exploration of the theme of horse and rider. With the help of Marini's widow, Leipzig's Museum of Fine Art has gathered 60 paintings, 30 sculptures and 25 drawings for an exhibition opening on Thursday.

MUNICH

British opera producers are becoming almost as well known in Germany as they are in the UK – thanks to Peter Jonas's transformation of the Bavarian State Opera into an "ENO-on-the-Isar". David Pountney's second Munich staging within a year is "Aida", opening on Friday. The cast includes Cheryl Studer, Waltraud Meier, Dennis O'Neill and Robert Hale. The conductor is Roberto Abbado.

VIENNA

This year's early music festival at the Konzerthaus focuses on Austrian, Hungarian and Bohemian composers from the Middle Ages to the Baroque. Guest artists include Jordi Savall's Hesperion XX and Joshua Rifkin's Bach Ensemble, which will perform a Requiem composed by Emperor Leopold I in 1673. The festival, entitled Resonanzen '96, opens on Saturday and runs till the following weekend.

BERLIN

Berlin and London are to be linked over the next two months by a series of prestige chamber orchestra concerts. In Sunday's inaugural event at the Konzerthaus, Iona Brown (below, right) directs the Academy of St Martin-in-the-Fields in music by Purcell, Haydn, Stravinsky and Mozart. Other orchestras in the series include the Moscow Soloists and Nikolaus Harnoncourt's Vienna Concentus Musicus, which opens the London series at the Barbican on March 4.

LONDON

The Royal Opera missed Sir Michael Tippett's (right) 90th birthday, but a late present is better than none at all. On Tuesday the company will present a new production of his first opera, "The Midsummer Marriage" in its special series of 20th-century operas. Graham Vick is the producer charged with realising Tippett's richly inventive scenario. Bernard Haitink conducts and the cast includes Cheryl Barker and John Tomlinson.

Peter Hall's 1992 staging of Oscar Wilde's "An Ideal Husband" returns, opening on Wednesday at the Haymarket Theatre Royal, where the play had its premiere 101 years ago. Martin Shaw and Penny Downie star.

The kung fu king

Nigel Andrews talks to Raymond Chow, Hong Kong cinema's last tycoon, about a united Chinese film industry

One evening 35 years ago Hong Kong studio chief Raymond Chow sat down to watch late-night television. The first thing he saw was a young martial artist demonstrating showy stunts to a live audience. Flailing fist or foot, he broke a wooden board held by an assistant; then a board hanging by a string; then, with an extra loud cry and animal grimace, a board he had thrown high into the air.

It was not the tricks that impressed Chow; he had seen them before and even learned some as a young kung fu pupil. It was the man's expression. "It had this mixture of honesty and charisma. And when the camera focused on his face you saw this *terrifying* expression – he really wanted to kill you!"

The man was Bruce Lee: then a 30-year-old Hong Kong-raised kung fu teacher based in Hollywood. "He had trained people like Steve McQueen and James Garner, but he couldn't get into movies himself at that time," says Chow. "He was determined to make a film career, so we made him a deal."

The rest was history. Lee became the biggest star the East ever produced and the only one to conquer the West. Chow, from marginally less modest beginnings as the son of the governor of the Bank of China, became the head of Asia's biggest studio and its biggest movie entrepreneur.

After Lee he appropriated kung fu star Jackie Chan, another goldmine on legs. And today as head of Golden Harvest Films he sits genial and white-haired in a studio complex in the suburban hills north of Kowloon. He masterminded Hong Kong's miracle movie years in the 1970s and '80s, when the colony became the third biggest movie industry in the world (US first, India second). Now he presides over 170 movie screens throughout Asia. "By the end of 1996 we should have 270, not counting Korea with whom we have just signed a new deal." He had also just shaken hands on a ten-year deal with Korea's Cheil group to distribute the films of Spielberg's new DreamWorks studio throughout Asia.

Today, he ponders what may be the biggest prize of all: to extend his cinema and production empire into Mainland China. "There were 5.5 billion cinema admissions there this year and the figure is rising. That is two or three times the numbers in America. We estimate too that the China film business is bigger than the rest of Asia combined."

Does he plan to build a new multiplex chain in China, as the Hong Kong newspapers report?

"We plan, but we are still arguing about a licence. It would be the first foreign-run chain in Communist China's history. China says, 'We don't need new theatres.' But their reasons are political. They still consider film a propaganda-weapon rather than entertainment, and they are sensitive about anything to do with ideology."

The Hong Kong film industry knows that as well as any. It was virtually shaped by the shockwaves of China's politicisation, as Chow explains. "In 1947 a man called T.Y. Lee fled here from Shanghai and built the first purpose-built studio. For five years he flourished, employing the best directors and stars. But he lost the Chinese market in 1950 because of Communism and soon after went bankrupt. Twenty years later his studio was bought by us – so that is where you are sitting now!"

Chow's own career history was simple and meteoric. "I worked in newspapers and radio before joining Shaw Brothers, which was the major studio in the 1950s and 60s. I was their advertising and publicity manager, then put in charge of production." But when Sir Run Run Shaw, the company's knighted and legendary boss, declined to make him a partner, Chow jumped sideways and formed Golden Harvest.

As Hong Kong cinema's last tycoon – and the probable first of a united Chinese cinema – Raymond Chow, OBE, cuts a gentle figure. As a child he was so delicate that his father forced him to take martial arts lessons. "When I was four or five I kept getting sprains or strains. If I sat on the ground and someone tried to help me up, I'd dislocate my arm!" So he went to beef himself up at the school of the most famous kung fu instructor in the Orient, a man who has had a hundred movies made about him, not a few by Golden Harvest.

In the 1970s and '80s Chow's studio reaped undreamt-of rewards, thanks to the world popularity of Hong Kong's action cinema. Then came decline. Without spelling out the dread word "Triad", Chow attributes the industry's vicious 1990s slump to "outsiders coming in to make easy money. By promising a big star in a movie and saying they had a script being written, they'd persuade a wealthy backer to part with $5m. They'd hand $4m to the makers and pocket $1m. So you'd have a film with one marquee-value star and a terrible script and production values."

The Kobal Collection

Bruce Lee, the biggest movie star in the East: but what will the future hold?

Many of new gangster impresarios also used the film business to launder their gains from gambling, drugs or prostitution. "It became a vehicle for dirty money."

But the Triads, believes Chow, are yesterday's antagonist. The new army of opposition, or reactionary resistance, is the Beijing government.

"Right now, we are trying to persuade them that the secret to transforming their industry is to make entertaining films. Film is seen by many governments, including China, as education. In Taiwan we fought like hell to remove cinema from the education ministry into the new government information office. In China film, TV and radio are all under the ministry of culture."

And we know what sins and omissions the word "culture" has covered up in the country's history. But free-market cinema, says Chow, has already won one notable victory. China's longstanding resistance to American movies broke down last year when it opened its cinemas to what it styled "ten superior pictures from across the world." Five of these, including *Forrest Gump* and *True Lies*, were procured from Hollywood through Chow's alliance with UIP International, the foreign distribution arm for Paramount, Universal and MGM.

"This was historical," he says. "China's attitude was, 'We want to improve our film business by showing what the rest of the world sees.' It was a brave thing to do, because as soon as it was announced the scheme was under fire from China's own studios. 'You're trying to kill our industry!' they said. And the protests got louder as each Hollywood film did better and better."

"Next thing," Chow continues, "the Chinese minister is in America saying, 'Look, we've played X number of your films, how many of our films have you played?' They don't understand that this is not a matter of national trade balance, it's about entertainment. It's a free transaction area."

So can Hong Kong, as an East-West middleman, act as gentle persuader in this debate? "We really do believe we can influence China in a more liberal, capitalistic way. Right now at Golden Harvest we have six of China Film's junior executives on a two-week training course in exhibition and distribution.

"And there have been big changes in China itself. Today, not just the Special Economic Zone but the whole area to the north and the coastal provinces are as capitalistic as Hong Kong, if not more. Shanghai is like a western city. From ground zero, much of China has grown to a highly developed free-market society.

"Everywhere today you see a loosening of dogma and restriction. For instance the Chinese love brandy. They drink it in tumblers. In Hong Kong everyone is happy with Hennessy XO. In China they started with that, then a couple of years later they wanted Louis XIII! Chinese people drink more and more red wine too, imported through Hong Kong. Their favourite is Rothschild – or 'Rothcheeah.' At first they didn't know or care what year or vineyard it was, but now they are learning all about different châteaux. China is getting very non-socialistic.

"I think that given talk and time there is good hope for the two countries living together – and after 1997 the two cinemas."

Theatre in London

True lies

In the mid-1790s, 20-year-old William Ireland's Shakespeare forgeries deceived many of the great and the good; the supposedly "re-discovered" play, *Vortigern and Rowena*, was even staged at Sheridan's Drury Lane Theatre.

Ireland's hoax is a marvellous subject for a play but this particular piece, *Contested Will*, gets rather carried away with the opportunities for artifice. Playwright Olly Figg (who, one suspects, is not unrelated to director David Cottis) works hard at giving Sheridan plenty of *bons mots*, then harder at enabling Ireland and Drury Lane's leading comedienne, Mrs Jordan, to withstand such constant fire. Consequently, we occasionally go as long as 30 seconds without an acerbic pun being cracked.

Andrew Vesper's performance as Ireland veers awkwardly between that of a young man trying to out-play the grown-ups and an adolescent infatuated with Mrs Jordan; where the historical Ireland executed his forgeries primarily to impress his father, this lad is more concerned with the actress he idolises. Katerina Jugati plays Mrs Jordan as a consummate coquette but is under-supplied by Figg when the time comes to show a degree of sincerity and caring. As Sheridan, Alistair Findlay needs to do little but keep the word-play fizzing.

Cottis' direction is largely concerned with liveliness but falls foul of the fact that it is impossible to fit Regency frolics into a pub theatre. A company of five does not pack the Etcetera's stage but it becomes damned difficult to be expansive without either vocally or physically knocking one another off their feet.

An over-shapely cyclical ending rounds off 90 minutes which provide both less insight and a narrower range of humour than they had promised. In a glorious misprint, the programme notes refer to Shakespeare as "a scared cow"; *Contested Will* is more like a bewildered emu.

Ian Shuttleworth

Anna, an 18-year-old innocent abroad embarking on an unknown journey into adulthood, is a white Dominican who wishes she was black, "warm and gay; being white is cold and sad". She becomes a chorus girl touring the seedy English seaside resorts, turns mistress then tart when rejected by her lover, gets pregnant and endures a back-street abortion, which kills her. Potent stuff: the ending was toned down for publication, despite Jean Rhys's protests. Her novel *Voyage in the Dark* made a powerful impact in 1934.

Joan Wiles' dramatisation (first staged at London's White Bear in 1992) partly relies on Anna's narration, but largely omits subtext, psychological depth and the richness of characterisation. This is the danger of translating a novel into theatre: you might be left with flimsy dialogue and banal plotting. In a novel, you are stimulated by the author's imagination interacting with your own. On the finite stage, that novel relies on the artists' inspiration which may diminish the novelist's.

Jean Rhys's novel is autobiographical. Brought up in the Caribbean, she came to England as a teenager, led a wayward life in similar tawdry circumstances, was a heavy drinker and always felt she could hide behind a posh frock. Just like Anna.

Newcomer Katrina Syran is fascinating as Anna because of her accent. She effects the Creole-Caribbean lilt required, but it is mixed with her own distinctive Norwegian. The other four members of the cast are a bit too bluff, perhaps led astray by the courseness of the dramatisation. However, Ian Kirkby makes an impression as a range of knowing waiters, as a rum-soaked young colonial, as a trilby-wearing scorner, and as a cad.

The atmosphere in Sue Parish's touring production for Sphinx is mainly created by Jenny Kagan's grey England and gold Dominica lighting – from *film noire* to Technicolor. Claire van Kampen's music is overwhelmed by a metallic clicking clock, the choreography sorts out those with two left feet, and there is some impressive solo singing – but this is not supposed to be a musical.

When Jean Rhys was rediscovered in Cornwall in 1957, she was out of print and had not written for 20 years. Whatever you make of this play, she is a better read.

Simon Reade

Contested Will is at the Etcetera Theatre, London NW1, until January 28 (0171 482-4857). *Voyage in the Dark* is at the Young Vic until January 27 (0171 928-6363); then on tour.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT

Concertgebouw
Tel: 31-20-5730573
● Koninklijk Concertgebouworkest: with conductor Nikolaus Harnoncourt and soprano Vesselina Kasarova perform works by J. Strauss, Berg and Brahms; 8.15pm; Jan 17, 18, 19, 20

■ ANTWERP

THEATRE

De Singel Tel: 32-3-2483800
● De Beurtzang: by Djuna Barnes. Directed by Gerardjan Rijnders and performed by the Toneelgroep Amsterdam and the Blauwe Maandag Compagnie. The cast includes Stany Crets, Els Dottermans, Kees Hulst and Mark Rietman; 8pm, Jan 17, 18, 19, 20

■ BERLIN

CONCERT

Philharmonie & Kammermusiksaal
Tel: 49-30-254880
● Berliner Philharmonisches Orchester: with conductor Georg Solti perform R. Strauss' "Macbeth", the "Tanz der sieben Schleier" (Dance of the Seven Veils) from "Salome" and "Also sprach Zarathustra"; 8pm; Jan 18, 19, 20

OPERA & OPERETTA

Deutsche Oper Berlin
Tel: 49-30-3438401
● Martha oder Der Markt zu Richmond: by Von Flotow. Conducted by Sebastian Lang-Lessing and performed by the Deutsche Oper Berlin. Soloists include Amanda Halgrimson and Friedrich Molsberger; 7.30pm; Jan 17

■ BIRMINGHAM

CONCERT

Symphony Hall
Tel: 44-121-2123333
● City of Birmingham Symphony Orchestra: with conductor Mario Venzago and pianist Leif Ove Andsnes perform the overture to Rossini's "Il Viaggio a Reims", Prokofiev's "Piano Concerto No.3" and Bruckner's "Symphony No.3"; 7.30pm; Jan 17

■ BONN

OPERA & OPERETTA

Oper der Stadt Bonn
Tel: 49-228-7281
● La Rondine: by Puccini. Conducted by Eugene Kohn and performed by the Oper Bonn. Soloists include Hasmik Papian and Birgit Beer; 8pm; Jan 16, 20 (7pm)

■ CAMBRIDGE (US)

EXHIBITION

Fogg Art Museum
Tel: 1-617-495-9400
● Etching and Etchers since 1850: the exhibition will look at the work of 10 printmakers who have used etching since it became purely an artists' medium, that is, after the invention of photography and the development of photomechanical reproductive techniques ended its usefulness for practical image-making applications. The display includes works by Whistler, Ensor, Picasso and Johns; from Jan 20 to Apr 14

■ COLOGNE

OPERA & OPERETTA

Opernhaus Tel: 49-221-2218240
● Der fliegende Holländer: by Wagner. Conducted by John Fiore and performed by the Oper Köln. Soloists include Franz-Josef Selig, Renate Behle, Thomas Sunnegardh and Regina Mauel; 8pm; Jan 18

■ HAMBURG

CONCERT

Musikhalle Hamburg
Tel: 49-40-346920
● Hamburger Mozart-Orchester: with conductor Robert Stehli, violinist Kyrill Troussow and pianist Alexandra Troussow perform works by Rossini, Paganini, Chopin and Brahms; 8pm; Jan 20

■ LONDON

DANCE

Royal Opera House - Covent Garden Tel: 44-171-3044000
● Swan Lake: a choreography by Petipa/Ivanov to music by Tchaikovsky, performed by the Royal Ballet. Soloists include Jonathan Cope and Sylvie Guillem; 7.30pm; Jan 17

OPERA & OPERETTA

London Coliseum
Tel: 44-171-8360111
● Les Pêcheurs de Perles: by Bizet. Conducted by Emmanuel Joel and performed by the English National Opera. Soloists include John Hudson and Elizabeth Woollett; 7.30pm; Jan 17

THEATRE

The Pit Tel: 44-171-6388891
● Slaughter City: by Naomi Wallace. Directed by Ron Daniels. The cast includes Alexis Daniel, David Healy and Robert Langdon-Lloyd; 7.15pm, Jan 25; 7pm, Jan 27 also 2pm; from Jan 17 to Jan 27 (not Sun)

■ LOS ANGELES

EXHIBITION

Norton Simon Museum of Art
Tel: 1-818-449-6840
● The New Wave: Bonnard, Toulouse-Lautrec and Vuillard and the French Color Print: exhibition of 38 color lithographs by the 19th-century avant-garde painters/printmakers Pierre Bonnard, Henri Toulouse-Lautrec and Edouard Vuillard; from Jan 18 to Jul 21

■ LYON

THEATRE

Théâtre Les Ateliers Grande Salle
Tel: 33-78 37 46 30
● Primo Levi et Ferdinando Camon ou le voyage d'Ulysse: after Ferdinando Camon's "Conversations avec Primo Levi", adapted and directed by Dominique Lurcel. The cast includes Eric Cenat and Gérard Cherqui; Tue, Fri, Sat 8.30pm, Wed, Thur 7.30pm, Sun 5pm; from Jan 16 to Feb 4 (not Mon)

■ MUNICH

CONCERT

Philharmonie im Gasteig
Tel: 49-89-48098506
● Chor und Kammerphilharmonie des Mitteldeutschen Rundfunks: with conductor Salvatore Accardo, soprano Helen Bickers, alto Alicia Nafé, tenor Daniel Galvez-Vallejo and bass Kenneth Cox perform Rossini's "Stabat Mater" and Beethoven's "Symphony No.4"; 8pm; Jan 17

■ NEW YORK

CONCERT

Carnegie Hall Tel: 1-212-247-7800
● Messa da Requiem: by Verdi. Performed by the Orchestra of St. Luke's, the Robert Shaw Festival Chorus and The Robert Shaw Choral Institute Singers, conducted by Robert Shaw. Soloists include soprano Carol Vaness, mezzo-soprano Florence Quivar, tenor Jerry Hadley and bass Alastair Miles; 3pm; Jan 21

OPERA & OPERETTA

Metropolitan Opera House
Tel: 1-212-362-6000
● Il Barbiere di Siviglia: by Rossini. Conducted by Adam Fischer and performed by the Metropolitan Opera. Soloists include Ruth Ann Swenson, Raúl Gimenez and Mark Oswald; 8pm; Jan 17, 20

■ PARIS

CONCERT

Salle Pleyel Tel: 33-1 45 61 53 00
● Orchestre de Paris: with conductor Semyon Bychkov, the Choeur de l'Orchestre de Paris, soprano Françoise Pollet, mezzo-soprano Jane Irwin, tenor Roberto Sacca and bass Roberto Scandiuzzi perform Debussy's "Nocturnes" and Rossini's "Stabat Mater"; 8.30pm; Jan 17, 18

OPERA & OPERETTA

L'Opéra de Paris Bastille Tel: 33-1 44 73 13 99
● La Bohème: by Puccini. Conducted by James Conlon and performed by the Opéra National de Paris. Soloists include Roberto Alagna, Franck Leguérinel, Leontina Vaduva and Jules Bastin; 7.30pm; Jan 17, 20

■ ROME

OPERA & OPERETTA

Teatro dell Opera di Roma
Tel: 39-6-481601
● Iris: by Mascagni. Conducted by Gianluigi Gelmetti and performed by the Opera di Roma. Soloists include Nicola Ghiaurov, Iano Tamar (Jan 16, 19), Daniela Dessì (Jan 21), John Keyes (Jan 16), José Cura (Jan 19, 21) and Roberto Servile; 8.30pm; Jan 16, 19, 21 (4.30pm)

■ STOCKHOLM

OPERA & OPERETTA

Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300
● Aida: by Verdi. Conducted by Maurizio Barbacini and performed by the Royal Opera Stockholm; 7pm; Jan 16

WORLD SERVICE

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Michael Prowse · America

Conflicting visions

By putting Bill Clinton on the defensive, Republicans have increased their chance of a presidential victory this year

If this were not an election year, the Republicans and Democrats would not be fighting quite so hard over the 1996 budget. The US, after all, is not confronting challenges of historic proportions. It is at peace. Inflation and unemployment are encouragingly low. The budget deficit is less than 2.5 per cent of national income and, on unchanged policies, not expected to rise much for a decade.

Yet despite this enviable outlook, the disagreements between the White House and Congress were violent enough to cause the closure of much of the federal government for nearly a month. After seemingly endless negotiations the parties broke off talks last week without reaching agreement, even though both sides had conceded ground.

Republicans scaled back proposed curbs on social programmes; President Bill Clinton finally agreed to balance the budget over seven years as scored by the independent Congressional Budget Office. Since the differences in money (if not policy) terms are now relatively minor, the two sides may yet reach a short-term compromise, especially if Wall Street gets another bout of jitters. With a growing fraction of household wealth now held in equity mutual funds (unit trusts) neither party wants to be held responsible for a stock market crash.

But to understand why the two sides are so reluctant to compromise, you have to consider recent political history. The root problem is that the electorate backed two incompatible political visions – that of Mr Clinton in 1992 and that of Newt Gingrich, the House Speaker, in 1994. This would have been a recipe for "gridlock" even if the protagonists had stuck to their mandates – which they did not.

In the 1992 campaign Mr Clinton made a case for more active government as a way of alleviating the economic insecurity of middle-income families. He promised to improve education and workforce training (a strategy dubbed "investing in people") while addressing an alleged culture of dependency in inner cities by curbing welfare benefits. He also pledged tax cuts, a reduction in the budget deficit and universal healthcare insurance.

Once in office his priorities changed. Tax cuts and the investing in people strategy were dropped because they clashed with the more pressing goal of reducing fiscal deficits. He raised taxes substantially – but only on the wealthiest 1-2 per cent of families. He back-pedalled on welfare reform and instead proposed what came to be seen as a government takeover of the mainly private-sector healthcare system. Republicans seized the opportunity to portray Mr Clinton as an old-fashioned "tax and spend liberal" and won the 1994 congressional elections handsomely.

Mr Gingrich's manifesto – the Reaganesque "Contract with America" – was cleverly designed to exploit weaknesses in Mr Clinton's record. He promised (among a welter of other measures) to bring to the floor of the House legislation to cut taxes, limit welfare benefits, balance the federal budget, reduce public spending and cut the burden of federal regulation. Recognising the House's limited powers, he did not promise that any legislation would be enacted. Even more shrewdly he was silent on healthcare reform – the issue that had been Mr Clinton's undoing.

Yet once in power Mr Gingrich's strategy also mutated. Instead of simply putting a time limit on welfare, House Republicans committed themselves to a far more ambitious programme of shifting responsibility for a broad range of social programmes from Washington to the individual states. And when the Constitutional amendment to balance the budget was defeated by a single vote in the Senate, frustrated Republicans decided to eliminate deficits over seven years anyway. This was a fateful decision: already committed to tax cuts, Mr Gingrich found himself obliged to propose curbs on the growth of healthcare spending. Mr Clinton leapt at the chance to portray himself as a champion of the elderly and poor – and recovered much lost ground.

In 1992 Mr Clinton was seen as a reformist alternative to the dull George Bush. Yet this time Republicans have forced him into a Bush-like role as defender of the status quo. Having grudgingly agreed to a balanced budget, he cannot easily resurrect his "investing in people" strategy – the most innovative part of his last campaign – because there is now no cash for sizeable investments in human capital. Yet he has little else to offer the "forgotten middle classes", other than the promise that the federal safety net will still exist if they lose their jobs.

Republicans were perhaps carried away with ideological fervour last year. But, with some modifications, the Gingrich programme can still form an appealing electoral platform for them. They can argue that a policy of clinging to outdated federal spending programmes offers no cure for economic insecurity in the 1990s. What is needed, instead, are bold innovations designed to boost growth. Republicans can argue that they are the party of radical tax reform and hold out the prospect of lower top rates and a shift in the burden of taxes from income to consumption – measures likely to raise savings and investment.

They can also present themselves as the responsible party: the party willing to secure the long-term future of entitlement programmes such as Medicare by slowing their growth and bringing their management into line with best practice in the private sector. What of Mr Clinton's effective attack on their apparently harsh proposals on welfare and healthcare for the poor? This can be defused by arguing that Republicans do not want to tear up the social safety net, merely to delegate parts of it to the states. The case for devolving power from Washington to state capitals is likely to be a prominent – and popular – part of this year's Republican platform.

The Gingrich "revolution" made an unusually bitter fight over this year's budget inevitable. But it has served a political purpose in helping Republicans redefine themselves as the party of reform and innovation – and thus boost their chances of regaining the White House this year.

Gingrich (left) and Clinton: incompatible political visions

·LETTERS TO THE EDITOR·

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Private investment and the east Asian 'miracle'

From Prof Jagdish Bhagwati.

Sir, Michael Prowse's column ("Confucius rules", January 8), while offering interesting observations on the social lessons to be learnt from east Asian experience, cites with apparent acceptance the recent contention that east Asia's economic success to date simply reflects "growth of inputs" rather than "improvements in efficiency". This argument, however, is misleading insofar as it implies that the growth of input is somehow independent of an efficient policy framework.

Allwyn Young at Boston University must be credited with having made the calculations that give the central accounting role to capital accumulation in explaining east Asia's miracle. Unfortunately, some distinguished economists have inaptly described Young's estimate as showing that the east Asian "miracle" is a "myth". In fact, the miracle lies precisely in what the scholars of east Asia have always known: that the *private* investment rates (as distinct from the *public* investment rates which reflect governmental decisions and were remarkably high but quite unproductive in the socialist countries) climbed to truly astonishing levels (nearly 40 per cent) in the region during a sustained period of nearly three decades.

This "fundamental" itself has to be explained as being a result of an efficient policy of outward orientation that the region embraced early, as a pioneer, starting in the late 1950s. A rapid integration into the world markets, which themselves were growing strikingly as world trade barriers were coming down under the auspices of the General Agreement on Tariffs and Trade, meant that the inducement to invest remained high and pulled investment rates steadily higher, with domestic savings accommodating the profitable process. This may be contrasted with India, where the private investment rate was badly constrained by domestic agricultural growth in a virtually autarkic framework.

The outward orientation, with associated export earnings growth, enabled the import of superior "newer-vintage" capital goods whose productivity for the east Asian economies had to be in excess of import cost, thus providing a double dividend for growth from this policy framework. India again lost out on this element of success.

It is, of course, true that at *some* stage this process will run into both savings constraints and diminishing returns. But the east Asian model has been imitated successfully by the Asean countries. And, if India maintains and strengthens its outward orientation, it is poised to reap the rewards, with growth rates escalating to between 8 per cent and 9 per cent annually, 30 years behind the curve.

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Too limited a view of the value of human labour

From Mr Geoff Crocker.

Sir, Martin Wolf ("Path to full employment", January 9) rushes with indecent haste to quote James Meade in support of labour market clearing policies – sadly Professor Meade is no longer with us to reply to Mr Wolf's interpretation.

Mr Wolf presents his argument as though the need for the real wage rate to fall to clear the labour market were a self-evident truth. And yet his case is both philosophically unacceptable and technically superficial. Economics must also have its theology. Theorising which treats human labour simply as a factor of production is inadequate in several ways.

First, it must remain more important not to distort the dignity and value of the person rather than to worry about distorting the market as though the market were a more sacrosanct moral entity, a master rather than a servant.

Second, as Keynes surely taught us, the wage rate is not only a *cost* of production but also the *income* of purchasing power – it determines effective demand as well as supply costs so that the production and consumption value equations must balance in aggregate. It is the dynamics and composition of the wage mix which complicates analysis so that, for example, higher wages to lower income consumers will feed into domestic rather than import demand.

Third, the aim of the market economy is to deliver *standards of living* measured by the real wage, the wage/price division. Clearly this can only rise if nominal prices fall faster or rise less rapidly than nominal wages, which in turn can only happen with true (not wage nominal) productivity increases resulting from technology, skill, and investment, not wage cuts.

If this sounds like socialist hogwash to some, it remains arithmetically true!

Where Mr Wolf is pointing in the right direction is that as technology reduces the employment/consumption ratio, then effective demand will have to be voted other than traditionally through the wage, meaning that in very advanced economies, the role of government in managing transfer payments and allocating incomes is bound to increase.

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An inexpensive alternative

From Mr Michael L Byrne.

Sir, So Forte wants to keep its hotels and sell its restaurants to Whitbread if Granada's bid for Forte fails and Granada wants to sell Forte's hotels and keep the restaurants.

Perhaps everyone would be happy if Forte, instead of selling the restaurants to Whitbread, would sell them to Granada. Is this proposal too simple and inexpensive for the city advisers?

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Funding for Indian lands

From Mr Cowan Coventry.

Sir, The new decree governing the demarcation of Indian lands in Brazil, reported by Angus Foster ("Brazil attacked over Indian law", January 11), effectively legitimises land-theft. It also raises the question of whether international funds, provided to the Brazilian government to enable it to guarantee indigenous land rights, might be in danger of being used for exactly the opposite purpose.

Indigenous communities in Brazil rightly fear that the new decree will strengthen the position of those, such as mining and logging companies, ranchers, or politicians from the Amazon region, who regard indigenous communities as an obstacle to their plans to plunder the natural resources of Brazil in the search for a quick profit. They disguise such ambition with the labels "development" and "progress". Ever since the new decree was first mooted it has encouraged groups in illegal occupation of indigenous territory to stay put, in the belief that they would subsequently obtain the support of the state.

The Brazilian Church Agency for Indigenous Affairs, CIMI, has drawn attention to the fact that Brazil's demarcation process is supported by funds supplied by the German government to the tune of DM30m (£13.6m), as part of the G7's pilot plan for the Amazon.

Oxfam believes that the G7 governments should urgently seek clarification from the Brazilian authorities as to how those funds will now be used in the light of the new decree. It appears that 307 indigenous territories, more than half the total, will be vulnerable to review and possible shrinkage. If international funds were to be used to further this process it would be quite contrary to the spirit and possibly the letter of the agreement under which the G7 funds were given.

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A start on simpler tax laws

From Mr Ian K Young.

Sir, Professor Myddelton (Letters, January 9) is quite correct that this year's finance bill is as long and incomprehensible as its immediate predecessors. He has, however, failed to realise that at long last the government is finally showing signs of doing something positive about the complexity of our tax laws.

On December 11 1995 the Inland Revenue published a two-volume report *The Path to Tax Simplification*, as it was required to do under section 160 of the Finance Act 1995. As a consequence of the work done in preparing the report, preparatory work will now go ahead on the main proposal of the report, which is: "to rewrite over about five years most of the primary legislation on the Inland Revenue taxes in simpler, more user-friendly language, which will be easier for everyone to understand."

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Samuel Brittan

Appeal of earmarked taxes

Proposals for earmarking or "hypothecating" specific taxes to pay for particular public services have been gaining in popularity. The Liberal Democrats found their suggestion of an extra 1p on income tax to finance more education spending sufficiently popular to talk tentatively of extending the idea to health. Both Demos, a left-of-centre think-tank, and the Institute of Economic Affairs, a critic of high public spending, have published papers in favour.

The most distinguished recent contribution comes from a political theorist, Prof Albert Weale, in *The State, Politics and Health* (Blackwell), a symposium of essays dedicated to Rudolf Klein, the leading writer on the politics of health. There is an accompanying volume of Klein's own writing, *Only Dissect*.

Weale accepts that the market can provide many services the citizen desires. But he believes that it is not efficient in the case of health because of well-known problems such as the incentive for doctors and hospitals to over-treat.

The originality of Weale's contribution lies not in his arguments for some form of publicly financed health system, but in his idea of "democratic responsiveness". In elections voters can only choose between vaguely described bundles of public goods. There is no way in which I can vote against Michael Howard's penal policies without also expressing a preference for more collective provision all round. And, of course, some voters may want more such provision for medical care rather than education. It is as if shoppers had to choose between trolley-loads of goods from Tesco and from Sainsbury, instead of picking goods off the shelf.

What I found particularly interesting is that Weale comes to favour hypothecation from a fear that public spending on health will be inadequate. I arrive at the idea from a suspicion of campaigns against "underfunding" spearheaded by union militants in nurses' uniforms. Is there not in hypothecation a device which will give some idea of what the public is prepared to pay for services such as health?

Finance ministries the world over have always opposed hypothecation. It is a threat to their control, but that does not dispose of the argument.

It must also be conceded that many proposals for earmarked taxes are simply tokenism and would not help more informed judgments to be made. An extra 1p in on income tax for more education spending, for example, is not useful if voters have no idea how much of their taxes goes to education already. An earmarked tax, to be worthwhile, would have to pay for the great bulk of the service in question. Thus value added tax would be a clear candidate for earmarking as a health tax, since its yield is nearly equal to government health expenditure.

It is as if shoppers had to choose between trolley loads of goods from Tesco and from Sainsbury, instead of selecting their own goods off the shelves

The weakest argument against earmarking is that it would make public services dependent on tax yields, and thus vulnerable to the vagaries of the business cycle. The worst that could happen is that a marginal topping up might be required in a recession – a situation which might in any case justify some deficit spending.

A more impressive objection comes from John Kay, a former director of the Institute for Fiscal Studies. His view is that widespread earmarking would lead to an upsurge in spending on emotive public services such as schools, hospitals or pensions. Less immediately popular items such as MPs' pay, the expenses of tax collection or military spending would be neglected. When the need for these less glamorous forms of spending finally dawned, the result would be to push up public spending as a proportion of gross domestic product.

But to me the strongest objection is something called the aggregation problem. If VAT financed the health service, you might not mind paying a few extra percentage points for better provision. But if others wanted to spend more on education, pensions or crime prevention, you might have second thoughts on how much extra you wanted to spend on health. Nobel prizes have been won for showing how difficult it is to aggregate individual preferences into a single total which avoids favouritism, dictatorship or other arbitrariness.

A more practical objection is that, in the course of time, governments will inevitably either top up the proceeds of earmarked taxes or raid them for other purposes. The most famous example of the latter is the way in which the Road Fund, financed from motor taxation, came to be used as a general source of revenue. The moral is that an earmarked tax is likely to degenerate over time.

Thus my conclusion is that hypothecation is unsuitable as a general system for deciding how much of the national income should be spent collectively. And it is of only limited value in dividing collective spending between all the claims made on it. But it can be helpful for defusing an issue at the centre of controversy, such as the funding of the National Health Service.

This makes a case for having only one earmarked tax at a time. More generally, we need to advance beyond leaving public decisions to pressure group and bureaucratic politics. Earmarking is one limited step towards rationality in public finance.

FINANCIAL TIMES

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Monday January 15 1996

A pause for reflection

The interminable US budget deliberations will resume on Wednesday after a break of one week, a period described as a "pause for reflection" by all sides. Such contemplation is justified, given the adverse reaction of Wall Street to the continuing failure to reach a settlement. There are indeed fundamental philosophical differences at the centre of this conflict. But on one point US legislators should agree: that it would be highly irresponsible to permit the country to languish indefinitely without an agreed budget.

Amazingly, Mr Newt Gingrich, the speaker of the House of Representatives, has suggested that the disagreement about the role of the federal government is so great that it might be necessary to allow the electorate to choose between competing plans at the polls in November. In the meantime, he proposes, the federal government would have to run on ad hoc budgetary measures through the whole of this fiscal year.

That would be a curious as well as an impractical outcome. The capacity of an election to serve as a referendum on such an issue is dubious in any liberal democracy. This is especially true of the US, where the separation of powers between Congress and the President, together with campaigns normally shaped by local issues, make any such clarity unlikely.

However, this proposal is rendered doubly curious by the progress that has already been made with the budget. Even before this latest struggle began, the federal deficit as a proportion of GDP had fallen dramatically from the disturbing levels of the middle 1980s. It is policy preferences, rather than any imminent fiscal crisis, that are at the heart of the matter.

Balanced budget

Eight months ago Congress announced its intention to produce a balanced budget over a seven-year timetable, based on economic assumptions certified as plausible by the Congressional Budget Office. The administration claimed this was either unworkable or undesirable. Through an agonising procedure, both sides have now presented budget drafts that conform to these criteria. The American public cannot be expected to choose between two complex programmes based on the same formula.

The responsibility of all protagonists is to settle for a budget which is tolerable to both sides, but which may defer resolution of some of the bigger and more philosophical differences. The US should not go through this year on the basis of short-term spending measures and weekly manipulation of the debt ceiling, with market instability as a consequence. The credibility of policy in the world's largest economy would, to put it mildly, be damaged. The resulting upward pressure on longer-term interest rates would undermine whatever credit was derived from greater fiscal discipline.

Meaningful reform

Such an interim settlement would include a much smaller tax cut than the US$177bn that is the latest Republican demand in response to the $87bn that the White House has proposed. It is also unrealistic to expect Democrats to countenance granting authority over Medicaid to the states without adequate provision to protect the poor. It is doubtful whether the states are ready to receive the burden of such responsibilities without policy guidelines.

Republicans have stressed the need for meaningful reform of Medicare, the federal health programme for the elderly, given that this expenditure has been the motor of federal deficits in recent years. They also have reason to doubt the plausibility of the President's proposed domestic spending cuts. These will require much greater precision if the overall package is to be trusted. But the outlines of a trade-off are now clear and achievable.

Such a bargain may well seem unheroic to the hard liners. Nonetheless, this year's elections will allow both parties to argue the general merits of more or less taxation and greater or smaller government. The next President and Congress would then have the opportunity to amend arrangements within the agreed framework. The present incumbents must first, and swiftly, put that framework in place.

EU power failure

If the EU were to set itself the one New Year task that would most benefit consumers and free internal trade, it would do well to look to the European electricity market. For five years, EU energy ministers have been discussing proposals to liberalise trade in electricity, without result. Their latest effort, at a meeting just before Christmas, came tantalisingly close, but was once again defeated by its opponents, led by France.

The aim is to open up the electricity market to cross-border trading, and allow electricity generators and suppliers from one member state to set up in business in another. But putting electricity on the same free market footing as soft drinks or shoes has, inevitably, run into hostility from the established suppliers.

There were, admittedly, special reasons for the failure last time. France, long the strongest opponent of a free electricity market because of the threat it sees to the state monopoly, Electricité de France, was engulfed in public sector strikes. It could not possibly have agreed to a measure which would have increased the job insecurity of power workers.

Nonetheless, this was a missed opportunity. Spain had made effective use of its EU presidency to transform waning opposition to the single electricity market into a positive drive in its favour. Germany – where industry generally favours liberalisation, but the power generators were opposed – was shifting towards acceptance. The arrival of the EU's Nordic members had also strengthened the ranks of the liberalisers, while the UK has long been a strong advocate of the single power market.

Grounds for hope

Such momentum should not be allowed to dissipate under Italy's presidency of the EU, if at all possible. Rome has an ambivalent attitude towards electricity liberalisation: like France, its electricity market is dominated by a large state-owned producer, Enel. However, even Italy offers grounds for hope: Enel is due to be privatised, and a modicum of domestic liberalisation has already produced independent power companies keen for change.

The latest draft directive to be put before EU ministers was far from ideal. It was a compromise that incorporated features of previously discussed schemes: the negotiated third party access (NTPA) scheme which would throw open all EU members' electricity markets to generators and distributors from other member states, and the Single Buyer (SB) scheme, under which all electricity would be purchased by a single entity within each state. Those states which wanted liberalisation would be allowed to move to full competition and the others to admit new players, but retain centralised control of electricity supplies. This would have prevented full reciprocity between member states.

Special powers

However, the states that supported NTPA were willing to use this draft as a starting point for negotiation, rather than continue with the stalemate. This is probably sensible in that it would get some sort of process moving, despite French intransigence. Without any agreement, the Commission has the option of using special powers to impose a single market for electricity. Such a drastic step would be premature now, but might be justified eventually. What is most important, however, is that whatever scheme is ultimately agreed should introduce choice at the point where consumers buy their electricity.

The creation of a single electricity market is a matter of considerable importance, both for the economic success of the EU, the competitiveness of some major industries, and the credibility of its commitment to integration. Electricity is not, as France argues, a public service which should be exempt from the pressures of competition. As recent experience in the UK has shown, market liberalisation can drive down electricity prices dramatically, without jeopardising security of supply. These benefits have been noted by consumers in other countries, and should add to pressures for reform. It is up to the EU governments to respond to them.

The FT Interview • Alexandre Lamfalussy

Emu's sprightly defender

The president of the European Monetary Institute tells Andrew Fisher, Peter Norman and Lionel Barber that monetary union remains the right policy and an attainable target

Grey winter clouds swirled around the 35th floor office of Mr Alexandre Lamfalussy, president of the European Monetary Institute, in downtown Frankfurt last week. Inside, the outlook was equally gloomy for European economic and monetary union – the project the institute is charged with preparing.

Days before, Mr Theo Waigel, the German finance minister, had made the damaging admission that Germany – hitherto the only large Emu candidate meeting the Maastricht treaty's strict criteria for monetary union – in 1995 exceeded the public deficit target. Coinciding with news of economic stagnation and rising unemployment, his remarks fuelled fears about whether Germany could meet future targets. With growth slow across Europe – and French strikes fresh in the memory – the economic and political environment appeared increasingly hostile to Emu.

But the sprightly Mr Lamfalussy remains unruffled. In a 90-minute interview, he steadfastly defended Emu as the right policy for Europe, vital for the single market and attainable by the planned launch date of January 1 1999. "I don't see how in the long run we can have a single market without a single currency," he said.

Any delay that seemed likely to be indefinite "would be very, very worrying. I don't want to use the word disaster, but it probably wouldn't be very far from it."

Mr Lamfalussy, 66, has emerged as Emu's most credible advocate since his 1994 appointment as head of the institute, forerunner of the planned European central bank. In the politically charged debate about Europe's economic and monetary future, the former head of the Basle-based Bank for International Settlements has won respect through his lucid and practical commitment to the single currency.

The EMI's blueprint for the transition to the single currency at the end of this century – along with the name "Euro" for the single currency – was adopted in full by heads of government at a summit in Madrid last month.

The choice of name – and the adoption, at Bonn's insistence, of proposals for phasing the conversion of public debt into the new single currency – put a largely German imprint on the Emu project. But Mr Lamfalussy said he did not believe Germany's lapse from Maastricht virtue would jeopardise Emu. "I think it's perfectly within the means of Germany to respect these criteria. . . . I've no doubt in my mind about their ability to do that by 1997."

Instead, he is looking forward to two more immediate tasks facing the EMI this year: to come up with the initial recommendations on which countries will be founder members of Emu; and to devise a relationship between Emu and non-participating EU currencies.

"Germany, France and a number of smaller countries" would be the minimum for launching Emu, he said. "But the smaller the initial union, the more difficult it will be. That's why the question of the ins and outs is one of the most important we have to settle."

Mr John Major, UK prime minister, has warned that the creation of a monetary bloc led by France and Germany could split the EU and spark trade wars, with weaker non-Emu currencies manoeuvring for economic advantage. Mr Lamfalussy made a cooler appraisal. "If in 1999 you have a limited number of countries and then very quickly one or two join one or two years later, you do not have this basic cleavage in Europe."

Even if established by just a small number of countries, he believes Emu could be expected to attract new members. "Monetary union will have a very strong magnetic power and [the single currency] would be a stronger anchor than the present D-Mark."

An indefinite delay in launching monetary union would be a bigger worry than monetary union with a few members. "This would be a political shock. Then I don't see how we could pursue other essential political objectives such as common defence and external and internal security. How can you make citizens believe that these are going to happen if, in an area [monetary union] that has been worked on, prepared, discussed, voted on and agreed on, things do not happen?"

His remarks emphasised that Emu was politically driven. "You can't fix the dimensions of monetary union in terms of economics alone, you have to introduce politics," he said.

However, as a monetary technocrat, Mr Lamfalussy has to ensure that the politics of monetary union do not obscure the need for economically sound foundations. Ensuring that member countries can sustain their position after Emu is of paramount importance. "There is no point in trying to have monetary union except with countries which, in the long run, can live with Emu without major disturbances."

For this reason Mr Lamfalussy sympathises with German demands for a stability pact that would bind Emu members to strict fiscal disciplines – with the threat of sanctions. "I do not regard the German questions or requirements as anything negative. These show the seriousness of their intention. I have a great deal of sympathy with Mr Waigel's proposal."

He did not, however, go as far as Mr Waigel's view that Emu members could be ousted later if they overstep the criteria. "Throwing countries out of Emu seems to be going a little too far."

Mr Lamfalussy made it clear that he would be no pushover for politicians when it came to selecting the countries that qualified for Emu. "The political process is very much part of monetary union, but we do not want genuine choices to be polluted by political bargaining."

Although a final selection will not be made until early 1998, the Maastricht treaty requires the EMI and the European Commission to report this year to heads of government on progress by countries in meeting the entry criteria. The most important qualifications in the Maastricht treaty are that public sector deficits should not exceed 3 per cent of gross domestic product and overall public indebtedness should not be more than 60 per cent.

"We are not going to have a political interpretation. What we will have to have is a professional interpretation. Three per cent is less open to interpretation, but then you come to a very different situation with the 60 per cent. The treaty says it is acceptable if you are approaching 60 per cent at a satisfactory rate. What is a satisfactory rate? This is where sustainability comes in.

"The advice we give will be written, professional advice, based on sustainability. What the heads of governments do is their business. However, if we have a unanimous view clearly spelt out, and that view is the same as the Commission's, I don't see how much leeway heads of government have to dissent from that. This may be an immodest view, but don't forget this is going to be published beforehand. It will not be secret advice."

In the shorter term, Europe's rising unemployment poses a threat to the project. "I've always said that a high degree of unemployment entails risks for monetary union. The risk is that there will be political or public opinion pressure for reflationary or expansionary policies. Pressure of this kind to my mind is mistaken, because I do not believe unemployment is mainly due to the lack of effective demand.

"The mere fact of having high unemployment doesn't prevent monetary union. It makes the management of the entrance into monetary union more difficult."

Mr Lamfalussy was critical of the way virtually all governments had been using Emu as the excuse for unpopular but vital reforms of tax and benefits systems. "These problems exist with or without Maastricht and I think the mistake is to link them entirely to Maastricht."

He also deplored the failure by governments to explain the benefits of fiscal consolidation to their citizens. "There are not many countries or governments which have really managed so far to tackle the basic problems of reforms on the spending side," he said.

"Everything depends on the way fiscal and budgetary restraint is carried out, that's the crucial element. Clearly, budgetary restraint initially has some deflationary impact.

"If budgetary restraint is carried out in one-shot affairs, in particular raising taxes here or there, then people will not see the end of the process. They will not have the basic feeling that things are under control."

Mr Lamfalussy believes that people realise something is wrong and are prepared to accept that long-term problems, such as pensions and healthcare, should be brought under control. "If governments undertake a steady and credible policy to correct these problems, then I think the short-term deflationary impact can be offset by the confidence-building effect, and that would certainly be reflected in lower long-term interest rates."

Appropriately, as the interview drew to a close, the clouds began to lift from Frankfurt's Eurotower.

· OBSERVER ·

Citicorp and age concern

■ The revolving board room door at Citicorp has been given another twirl. Yet the changes have left Citicorp-watchers as confused as ever concerning one of the biggest questions in US commercial banking – who is being groomed to succeed John Reed?

Six months ago, three executives seemed to be in with a chance. Now the most powerful among them - Pei Chia, 56, a vice chairman and head of Citibank's retail operations, is bowing out. A second, David Gibson, will retire at a similar age: he was only recently given the job of running Citicorp's corporate banking business in the emerging markets. These exits come shortly after the departure of Christopher Steffen, the hatchet man and former Kodak chief financial officer who had been named a vice chairmen only recently.

The three remaining vice chairmen are also beginning to look like has-beens. Bill Rhodes, Onno Rudding and Paul Collins have all been elevated in recent months to "policy-making" positions where they have less direct influence over decisions on the line.

Instead, a new name has been thrust into the succession race. William Campbell, 51, until last summer chairman of Philip Morris' US tobacco business, has been put in charge of Citicorp's powerful retail banking operations, reporting direct to Reed.

Campbell, who was one of those swept aside when Geoffrey Bible wielded his new broom at Philip Morris, has had a tough couple of years. He was one of a number of tobacco industry executives who testified before Congress that they believed nicotine was not addictive – testimony that put him in one of the hottest seats in American business.

Will Campbell succeed Reed? Don't bet on it. Age is not on his side, especially since Reed does not have to retire until 2005.

Fading out

■ Patrick Poivre d'Arvor, one of France's best-known TV anchormen, is suffering from poor reception. Last week an appeal court upheld a FFr200,000 fine and suspended prison sentence against him for receiving some FFr500,000 in flights, meals and hotel accommodation from Pierre Botton, the Lyons business man convicted of corruption. TF1, France's leading TV channel, has decided to send "PPDA" off on a long sabbatical and hand the task of presenting France's prime time news bulletin to a less news worthy colleague. However, Canal Plus, TF1's rival pay-TV station, has no such qualms. A caricature of the broadcaster will continue to anchor the comic news programmes of its popular "Guignol" satirical puppet show.

Engaged

■ The crack down on the places where one can use mobile phones continues apace. PLO leader Yasser Arafat has decided to follow the lead of the best London restaurants and forbid the use of mobile phones in his presence. Visitors to his headquarters must now leave their cellular phones at a security post 200m from his beachfront base. Arafat's decision follows the recent death of Palestinian bomb maker, Yahya Ayyash, who was killed when his cellular phone blew up.

French farce

■ France has fallen in love again. Four decades after France pulled out of Indochina, Vietnam has been chosen as host of the next summit of La Francophonie, a loose club of about 40 countries where French is spoken.

France, conscious that English is far and away the most popular foreign language in her old colony, is pulling out all the stops. The French are helping renovate the Hanoi opera house, a colonial building modelled on the Paris Opera and are donating at least FFr70m ($14.1m) towards the cost of the summit. It seems a particularly generous donation given that out of a Vietnamese population of 73m people only 70,000 speak French.

Third time lucky?

■ What do they say about disasters coming in threes? On January 17 1994 Los Angeles was rocked by a massive earthquake which left more than 60 dead and over $30bn of damage. On January 17 last year more than 6,000 died in the Kobe earthquake which is reckoned to have resulted in $100bn of damage. No wonder the more superstitious chairmen of the world's insurance companies are keeping their fingers crossed that the day after tomorrow passes off without another major catastrophe.

Happy Burns day

■ George Burns, the US comedian who started in show business in 1903, celebrates his 100th birthday this week. He was once asked: "Mr Burns, is it true you go out with young girls?"

"True."

"Is it true you drink martinis every day?"

"True."

"Is it true you smoke 10-15 cigars a day?"

"True."

"What does your doctor say about this?"

"He's dead."

The Financial Times

100 years ago

End of the American Beer War
Shareholders in American Brewery Companies have every reason to congratulate themselves on the termination of the Chicago Beer War. That this conflict, which depreciated the exhilarating beverage to a value below the level of Chicago drinking-water, has been absolutely closed is now an ascertained fact, and there is no reason to doubt that the peace which has fallen upon the warring brewers of Chicago and elsewhere will bear fruit in increased profits to the companies concerned. One of the first fruits of the new arrangement will be an advance in the price of beer from $4 to $5 a barrel.

50 years ago

US strikes spreading
Presidential intervention has at least temporarily averted a major clash between workers and employers in the US steel industry. The White House now expresses its conviction that the wage dispute in this vital industry will be settled by collective bargaining. The issue is by no means decided, however, and other clashes threaten disruption of normal production schedules.

FINANCIAL TIMES
Monday January 15 1996

Forbes' rich pickings in Iowa

Publisher is no longer a joke in Republican White House race, writes Patti Waldmeir

Mr Steve Forbes was delighted. The Iowa Republican hopefuls' debate, the first big event of the 1996 US presidential election campaign, had been dominated by attacks on him and his belief in a flat income tax.

At last, the other eight Republican contenders had stopped treating the candidacy of the millionaire publisher as an expensive joke, the mid-life whim of a man with more money than sense.

"In 16 weeks, I've set the agenda for the campaign," Mr Forbes said. "This is great."

Opinions will differ over whether Mr Forbes won the weekend debate, part of the campaign for the Iowa party caucus which is likely, on February 12, to narrow the crowded Republican field to no more than three.

Many would argue that although he appeared to have won the publicity race, he lost the battle on substance, and his opponents successfully ridiculed his proposal for a flat-rate tax of 17 per cent on earned income.

They cast him as a rich man who would do more for his own class than for the poor, and would exacerbate the federal deficit. He admits the deficit would rise $40bn in the first year, although he claims new revenues would soon erase that.

But Mr Forbes does not apologise for any of that. He believes in a seamless alliance of money and morality, built on the flat tax. Cutting taxes would boost growth and increase tax revenues, reduce the deficit and increase prosperity. That formula gave him second place in Iowa opinion polls before the debate, far behind the frontrunner, Senator Bob Dole, Senate majority leader, on 41 per cent, but at least his rating was in double figures.

Those opponents trailing Mr Forbes in single figures are clearly rattled by that performance, made possible by the estimated $10m-$15m spent from his personal fortune on advertising. The Forbes campaign will not release exact figures.

Mr Scott Reed, Senator Dole's campaign manager, said after the debate: "They all have to get by Forbes before they can get to Dole." So they left the senator largely alone during the debate, letting him look serene and statesmanlike, and implicitly confirming his frontrunner status.

Mr Dole was delighted by the outcome, for he has an acknowledged edge over Mr Forbes, not just in the opinion polls, but in his Iowa organisation. Mr Forbes is struggling to build that organisation.

But the Dole organisation is stronger on the ground, and that could count heavily on a cold night in February when supporters might have to decide whether to trudge through the snow to vote. The candidates are competing in the state caucuses to win delegate seats for an August national convention that will select the Republican challenger for the November election.

The other seven contenders are stuck in an indistinguishable pack. Mr Lamar Alexander, former governor of Tennessee, tried to stand out during the debate, with the best one-liners at Mr Forbes's expense. He said the flat tax idea was "like the Great Pumpkin – it's going to solve every problem that we have".

Mistrust on the farm, Page 4
Editorial Comment, Page 15

US engineering groups 'have higher productivity' than UK

By Robert Taylor, Employment Editor, in London

American precision engineering companies achieve much higher productivity than their UK competitors but with less skilled workers, according to the UK-based National Institute of Economic and Social Research.

An NIESR study published today says US engineering companies record productivity levels two thirds higher than their UK counterparts.

The study also suggests US productivity is 25 per cent higher when compared with Dutch competitors.

It cites large economies of scale achieved in American plants as the main reason for the sharp productivity gap.

In the US, bigger average batch sizes are the norm, reducing the need for employees to move between different machines and products, which is often a necessary requirement within UK and Dutch workforces.

The report, by Mr Geoff Mason and Mr David Finegold, argues that the large difference in performance is also explained by the US use of graduate engineers who are able to substitute for scarce technician and supervisory skills.

"These graduates were found to play a significant role in production planning, machinery adaptations and the implementation of lean production techniques such as cellular production systems in US plants," the report says.

The authors believe the recent rapid growth in the number of UK graduates emerging alongside the development of a US-style, mass higher education system will eventually help to improve productivity performance in the country's manufacturing sector.

The study adds, however, that this trend can complement but not act as a substitute for more job-based training, supported by an extension of part-time vocational education.

It also suggests the "most striking" feature of the American system of skills development is the willingness of a relatively large proportion of adult workers to invest their own time and money in retraining and further and higher education.

In addition, many employers are willing to help with tuition fees and other expenses.

The study is based on a comparison of matched samples of American, British and Dutch production plants in three selected branches of precision engineering that cover centrifugal pumps, hydraulic valves and compression springs.

Productivity, Machinery and Skills in the United States and Western Europe: Precision Engineering NIESR discussion paper No 89 £3.00 from NIESR, 2 Dean Trench Street, Smith Square, London SW1P 3HE.

N-reactor man suicide

Continued from Page 1

which officials revealed the cover-up had extended from plant officials to company headquarters in Tokyo.

Officials told the press the video tape had been heavily edited before it was given to the media after the accident.

"I am sorry that it has been made an affair mostly because the video tape has been edited," he is reported to have written in one of the notes.

The Monju accident has increased public concerns that nuclear officials are hiding information about the dangers of the ambitious nuclear programme. The Monju experimental fast-breeder reactor was centre-piece of these plans.

Local residents are demanding the permanent closure of Monju, named after the Japanese goddess of wisdom.

Such opposition has increased the costs of construction as residents, industries and municipal governments have sought government compensation.

THE LEX COLUMN

Profits under pressure

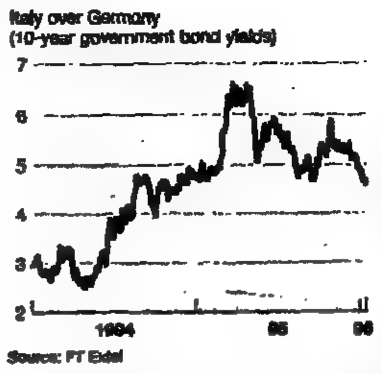
From France's Rhône-Poulenc to Germany's Thyssen, some of Europe's biggest companies have started the new year with the wrong kind of bang – a profits warning. Falling commodity prices and destocking have been hitting chemicals, paper and steel for some time. Not surprisingly, the gloomiest trading statements have come from these quarters. Akzo Nobel from Holland and Rhône-Poulenc have warned of poor demand for bulk chemicals; Finnish pulp producer Enso-Gutzeit has cut production; and Thyssen admitted that its steel sales fell 13 per cent in the three months to December. Another problem has been currency appreciation against both dollar and yen. Astra, the Swedish drugs group and Sandoz, its Swiss rival, both warned recently that local currency strength will hit profits.

But the malaise is spreading. It is increasingly clear that the Continent's economic growth virtually stagnated in the final quarter of last year and that 1996 has started slowly. Warnings from Britain's Redland and from Lyonnaise des Eaux have blamed weakness in the German construction industry. This could also affect German banks, given their heavy exposure to the sector. Others at risk include French retailers following the strikes and a subdued Christmas, and the European car industry, which has suffered fourth quarter production cuts.

Prospects for the second half look brighter. Either destocking will have run its course or governments will come under strong pressure to relax monetary policy. But there will be plenty more warnings before then.

Yield spread

Italy over Germany
(10-year government bond yields)



Source: FT Extel

Italy

Mr Lamberto Dini's latest resignation as Italy's prime minister could be his last. Although he could yet be asked to resuscitate his technocratic administration in a different guise, the odds are not high. That does not necessarily suggest immediate elections. Mr Silvio Berlusconi, leader of the centre-right coalition, has his mind on his forthcoming trial.

Meanwhile, the centre-left coalition looks too unsettled to pursue the people's mandate. Moreover, until constitutional and electoral reforms are completed, there is little chance of a decisive win for any party. So elections could be postponed once more in favour of a short-term coalition government, formed by politicians from left and right, who could push through these vital reforms more easily than Mr Dini. Mr Dini's departure would not be bad for Italian financial markets. He failed to live up to the promise of earlier technocratic administrations. His government's pension reforms and budget were weak and he lacked the political backing to tackle the country's debt mountain. Hence the poor performance of the lira and government bonds during his premiership.

At least, the Bank of Italy has been undeterred by recent political uncertainty and has held up interest rates against the recent downward trend elsewhere in Europe. Indeed, interest cuts may be in the offing, now that inflation is showing signs of easing. But unless there is the prospect of a government which will tackle Italy's debt, the outlook for currency and bonds will be unexciting.

Forte/Granada

As the race for control of Forte approaches its close, Granada looks ahead among UK fund managers, but valuations of new Forte and new Granada suggest it should be a tight finish. New Forte would be a streamlined business with a new-found commitment to cost-cutting.

Moreover, its share buy-back programme – regardless of Granada's protests – provides comfort that the shares would stay above 330p if the bid lapses, with a further 23p to come from the Savoy demerger. Such a level is likely to be underpinned by earnings. New Forte could achieve profits of £230m in 1996-97, before buy-backs. Assuming an earnings-neutral buy-back, this translates into a p/e of 17. This is a 25 per cent premium to the market, but it is supported by the promised disposal of Forte's low-return trophy hotels. By comparison, Granada's 362p cash offer does not look compelling.

Nonetheless, if Granada wins and delivers promises of cost cuts and hotel sales, its shares will perform strongly. Earnings could be enhanced by close to 15 per cent in 1996-97, underpinning a cash and share offer which already amounts to 379p. There are risks on both sides. If Forte's management transformation proves short-lived, if its trophy assets are not sold or the hotel market stutters, a 330p valuation will look stretched. And if Granada cannot sell Forte's luxury hotels, earnings will be diluted, cost-cutting will slow and the value of Méridien could decline through lost management contracts. There is not much in it, but Granada's better track record must give it the edge.

UK utilities

Here is a proposal that just might resolve the latest controversy in utility regulation. On one side of the debate is Mr Ian Byatt, the water regulator. He wants water companies absorbed in larger groups to refloat some of their shares, believing a stock market listing will make them easier to regulate. On the other side are utilities. They rightly argue that Mr Byatt's proposal would kill off takeovers in the sector. It would be financial madness to pay a fat premium for a utility and then float a minority stake at a discount.

A possible compromise would be to use US-style "tracking stocks". These allow investors to share in the financial performance of specific businesses, although they remain fully owned by the same group. The best example is General Motors, which has three classes of share – one to track the performance of its automotive business, one to track its Hughes defence business and one following its EDS information technology business.

If, say, United Utilities employed this technique, it would distribute to investors one class of securities to share in North West Water's performance and another to track the recently-acquired electricity utility Norweb. That should please Mr Byatt: separate accounts would be published; separate groups of shareholders would help ensure one utility was not disadvantaged for the sake of the other; and separate listings would be required. Crucially, there would be no need to sell off a block of shares at a discount – the flaw in Mr Byatt's proposal.

BA seeks bids for $1bn aircraft order

Airline planning to buy up to 60 regional jets in biggest deal since 1991

By Michael Skapinker in London

British Airways has asked five aircraft manufacturers to submit bids to supply it with up to 60 regional jets - an order the airline said could be worth more than $1bn.

BA said the purchase, its biggest aircraft order for five years, would consist of 30 firm orders and 30 options. One of the most important considerations would be the quietness of the aircraft on offer.

The airline announced that it would make a decision by the summer, with delivery of the aircraft to start at the beginning of next year.

Mr Robert Ayling, BA chief executive, said the airline was also talking to manufacturers about developing an aircraft with a bigger capacity and longer range than the Boeing 747-400, which carries 405 passengers. Mr Ayling said BA wanted the large aircraft to enter service by the end of the decade.

The five manufacturers which have been asked to submit bids for the regional jets are Boeing and McDonnell Douglas of the US, British Aerospace, Fokker of the Netherlands and Airbus, the European manufacturing consortium.

BA has traditionally been a Boeing customer, although its fleet does include some McDonnell Douglas aircraft. It has no British Aerospace jets, although it does have 14 BAe turboprops. The airline has never bought an aircraft from Airbus, although its fleet does contain 10 Airbus A320s which were ordered by British Caledonian before BA acquired British Caledonian in 1987.

The regional jet purchase would be the largest aircraft order by the airline since August 1991, when it ordered 15 Boeing 777s, with options on a further 15, and 24 Boeing 747-400s.

BA said the new aircraft, which would be in the 80, 100 and 120 seat category, would replace Boeing 737-200s on UK domestic routes and on services to the Continent from Birmingham, Edinburgh, Glasgow and Manchester. BA took delivery of the Boeing 737s in 1983 and 1984.

BA said that some of the aircraft would be used by Deutsche BA, in which it has a 49 per cent stake. Mr Ayling said: "By working with our alliance partners, we are expecting substantial savings by buying in bulk."

BA said that while the five manufacturers were free to offer whatever aircraft they thought suitable, the airline was likely to choose from the following jets: the Boeing 737-500 or -600; the McDonnell Douglas MD-95; the Airbus A319; British Aerospace's Avro RJ85 and RJ100; and the Fokker F100 and F70.

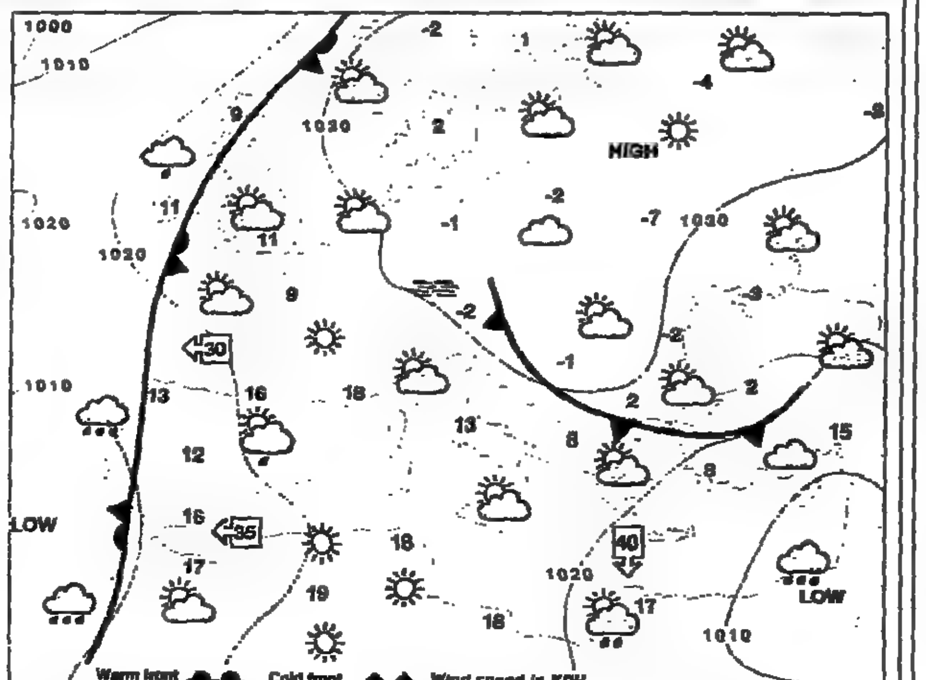
FT WEATHER GUIDE

Europe today

A weakening frontal zone will bring cloud and drizzle to Scotland and Ireland. The rest of the British Isles will be mostly overcast but dry. The Benelux, north-eastern France and much of Germany will have fog patches in the morning which will give way to sunny spells. France, apart from the south-east, will have plenty of sun. North-west Spain will be sunny with a few showers. Portugal and western Spain will have rain. Large areas of low cloud will cover Scandinavia and most of north-eastern Europe. Scandinavia will have lingering freezing fog in some regions. Several showers will affect the eastern Mediterranean, including Greece and Egypt. Turkey will have snow showers in the extreme north.

Five-day forecast

A strong high pressure area over Russia will temporarily move towards central Europe, pushing colder air towards the south and west. Morning fog will be possible. Showers will affect the Mediterranean from Wednesday. Rain from Atlantic depressions will not affect the UK until the weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands.

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	22
Accra	fair	33
Algiers	fair	13
Amsterdam	fair	4
Athens	shower	8
Atlanta	fair	1
B. Aires	sun	23
B.ham	drzzl	11
Bangkok	fair	34
Barcelona	shower	11
Beijing	fair	-2
Belfast	drzzl	9
Belgrade	cloudy	-2
Berlin	cloudy	-2
Bermuda	fair	20
Bogota	cloudy	19
Bombay	sun	30
Brussels	fair	11
Budapest	cloudy	-2
C.hagen	snow	1
Cairo	fair	19
Cape Town	sun	27
Caracas	fair	29
Cardiff	fair	10
Casablanca	fair	17
Chicago	fair	-3
Cologne	fair	7
Dakar	fair	25
Dallas	sun	17
Delhi	fair	20
Dubai	sun	21
Dublin	cloudy	11
Dubrovnik	fair	10
Edinburgh	cloudy	9
Faro	rain	15
Frankfurt	fair	2
Geneva	fair	5
Gibraltar	fair	14
Glasgow	drzzl	9
Hamburg	fair	2
Helsinki	snow	1
Hong Kong	cloudy	22
Honolulu	fair	29
Istanbul	sleet	3
Jakarta	cloudy	30
Jersey	fair	11
Karachi	sun	24
Kuwait	sun	17
L. Angeles	fair	20
Las Palmas	shower	20
Lima	cloudy	27
Lisbon	rain	14
London	fair	11
Lux.bourg	fog	1
Lyon	fair	6
Madeira	shower	17
Madrid	fair	12
Majorca	fair	16
Malta	fair	17
Manchester	cloudy	11
Manila	cloudy	30
Melbourne	fair	30
Mexico City	sun	17
Miami	sun	25
Milan	fair	8
Montreal	sun	-9
Moscow	sun	-6
Munich	fog	0
Nairobi	fair	28
Naples	fair	13
Nassau	fair	25
New York	sun	2
Nice	sun	15
Nicosia	fair	14
Oslo	snow	0
Paris	sun	7
Perth	sun	30
Prague	fair	-4
Rangoon	sun	31
Reykjavik	rain	5
Rio	cloudy	29
Rome	sun	13
S. Frsco	cloudy	13
Seoul	cloudy	7
Singapore	cloudy	29
Stockholm	cloudy	2
Strasbourg	fog	0
Sydney	fair	27
Tangier	rain	17
Tel Aviv	cloudy	18
Tokyo	cloudy	14
Toronto	fair	-7
Vancouver	rain	8
Venice	sun	8
Vienna	fair	-3
Warsaw	cloudy	-4
Washington	fair	6
Wellington	cloudy	20
Winnipeg	cloudy	-18
Zurich	fog	2

FINANCIAL TIMES

COMPANIES & MARKETS

Monday January 15 1996

MARKETS THIS WEEK

MARTIN DICKSON:
GLOBAL INVESTOR
The benign view of Europe's economic slowdown, and that of Germany in particular, is that it is a mid-cycle pause – growth will resume this year at a modest, non-inflationary pace. However the benign view of Europe's progress seems vulnerable on several counts. Page 19

ROBERT CHOTE:
ECONOMICS NOTEBOOK
Ever since the inception of the welfare state people have objected to the resources which it absorbs and the side effects it produces. Their voices are louder now than in the past, but this may have less to do with changing economic realities than with a shift in political debate. Page 19

BONDS:
Quebec passed a milestone in debt markets last week, issuing its first public bond since October's referendum in which voters turned down independence from Canada. But the terms of the issue have underlined the challenges facing Mr Lucien Bouchard, the separatist leader who takes over as premier later this month. Page 22

EQUITIES:
Investors in the US will be watching to see if a deal can be struck to balance the federal budget by 2002. Meanwhile in London, investors are concerned about whether the slowing economy is having an adverse effect on the earnings growth of UK plc. Page 21

CURRENCIES:
Economic data from the US this week may at last push the dollar out of its current ranges. Most important could be payroll figures, which, if weak, could cause the currency to weaken. Page 20

COMMODITIES:
Coffee futures values staged a modest rally last week but are still about 46 per cent below last year's highs. Producers meeting in Brazil this week are likely to consider tighter export limits to arrest the sharp decline in world prices. Page 19

INTERNATIONAL COMPANIES:
Most market analysts and industry executives insist the recent high technology sell-off will prove to be another temporary correction. But they argue that investors on both sides of the Atlantic need to take a longer-term view and become much more selective if they are to ride the technology wave successfully. Page 17

UK COMPANIES:
Ms Ann Iverson, chief executive of Laura Ashley, will today make the final two appointments to her management team, completing a six-month shake-up that has seen almost all senior positions change hands at the clothing and furnishings group. Page 17

STATISTICS

Kerkorian group puts its case to carmaker's biggest shareholders

Tracinda steps up its battle with Chrysler

By Haig Simonian in London and Richard Waters in New York

The long-term intentions of Mr Kirk Kerkorian, the US dealmaker whose privately-owned Tracinda group controls 15 per cent of the Chrysler car company, have emerged as one of the main concerns in talks between Tracinda and Chrysler's biggest shareholders.

Mr Jerry York, Tracinda's vice-chairman, said in an interview that he had so far had "useful" exchanges of views with 22 of Chrysler's 40 biggest shareholders. Mr York, a former Chrysler finance director, is contacting all the group's leading shareholders to explain Tracinda's arguments that Chrysler has not done enough to improve shareholder value.

Mr York acknowledged that Tracinda's long-term intentions were one of the main concerns of Chrysler's shareholders. He said that Tracinda had no exit strategy for its stake and he would give no assurances that it would not sell the shares once the price had risen.

In an increasingly bitter war of words with Chrysler's management, Tracinda has said the company should distribute more cash to shareholders and revitalise its efforts to sell off non-core assets.

Mr York's meetings with institutional shareholders are being mirrored with a similar campaign by Chrysler's board of directors, before a formal response to Tracinda's demands early next month. If the board rejects most of Tracinda's case, as is widely expected, the two sides will probably conduct a second round of sounding big shareholders before pushing for a vote at the shareholders' meeting, expected in May.

Mr York implied a proxy battle was highly likely. While trying to minimise the split with Chrysler's management, he confirmed that rejection of Tracinda's demands by the board would lead to a second round of meetings, at which the object would be to win the support of big shareholders.

In spite of Tracinda's attempts to sway opinion, many US motor analysts remain perplexed about its ultimate intentions.

Their doubts stem from Tracinda's record as a dealmaker and the impression created last April, when Tracinda is widely thought to have made a bungled takeover attempt for Chrysler.

Mr York said the events of April had been a "bad misunderstanding. Tracinda thought it was proposing a friendly management-led buy-out of the company. The intention was for the Chrysler board to look at the proposal and assess it. The offer would never have been made if anyone had felt it would not have been welcome."

AP

Tracinda's Jerry York: 'useful' exchanges of views

Granada sought to secure Forte voting control

By David Wighton in London

Granada tried to strike a deal which could have given it voting control of Forte for just £50m ($77m), whatever the outcome of its £3.8bn hostile bid.

It has emerged that Granada, the UK leisure, television and catering group, attempted to persuade the Council of Forte to sell its Forte trust shares, which carry half the voting rights, without restrictions.

This would have enabled Granada to gain voting control of the UK hotel group, even if less than 50 per cent of Forte's ordinary shareholders accepted its offer.

Such a move would have angered Forte's institutional investors, however, and the Council insisted that it would only sell the trust shares on condition that Granada secured a majority of the ordinary shares.

On that basis, Granada said it was only prepared to pay £10m, an offer the Council turned down. Granada finally accepted the Council's condition and a deal was agreed on the trust shares at £50m.

Granada yesterday denied it had ever had any intention of using the trust shares to influence the outcome of the bid and said its attempt to get an unrestricted deal had been merely a "negotiating technique".

"We could never use that voting power to push a deal through, so it would have been of no value in practice," it said.

One leading fund manager, who has large stakes in both companies, said "as a shareholder" he would have been "outraged" if Granada had used the trust shares to gain an advantage. But he did not criticise Granada's tactics.

Forte had ruled out trying to influence the Council, believing it would be unacceptable to the City. The Council holds 780,000 Forte trust shares, less than 0.1 per cent of the share capital.

The war of words continued yesterday as Forte renewed its attack on Granada's claim that it would improve Forte's profits by an extra £100m next year.

Forte said virtually all Granada's proposed changes had been implemented and that the 300 people Granada proposed to cut from Forte's head office included operational hotel management and sales teams. It also claimed a better food purchasing record than its adversary, with costs up 1 per cent over three years against inflation of 8 per cent.

Mr Robinson replied: "Forte's disbelief that its profits can be improved so much sums up the whole essence of the company's poor performance and shows why its management is never going to get it right."

Lex, Page 16

Warsaw's rise sparks hope for region's bourses

By Anthony Robinson, East Europe Editor

A 15.5 per cent rise in the Warsaw stock exchange in the first few days of trading this year and signs of renewed foreign investor interest in Prague and Budapest could be harbingers of a rebound in central European share prices.

The Mexican crisis damped last year's predicted recovery and a strong performance on mature markets kept emerging markets down for the rest of 1995. But while stocks languished, the economies of eastern Europe benefited from an export-led recovery in industrial output. "More and more companies are moving into the financial comfort zone where investors, including foreign investors, can feel happy," said Mr Roger Monson, chief equity strategist at Daiwa Europe.

At the end of 1995 only 149 companies with a total market capitalisation of $19.57bn were listed on the four main central European stock exchanges, according to Nomura. Prague, with 63 listed companies and a total capitalisation of $11.99bn, topped the list, followed by Poland with 53 listed stocks capitalised at $4.4bn, then Hungary and Slovakia.

On such thin markets a small influx of money can have a disproportionate impact on prices.

The sharp rise in Warsaw bourse came on an average daily turnover of around 120m zlotys, less than $50m, over the five most recent sessions, compared with an average of around 40m zlotys a day last year.

Emerging markets, Page 20

Issuance of new paper hits record

'Epic' volumes as D-Mark replaces US dollar as preferred denomination

By Conner Middelmann in London

The rally in European government bonds is spilling over into the international bond market, with issuance of new paper reaching record levels over the past fortnight.

"Volumes are reaching epic proportions," said one eurobond syndicate manager. "The first two weeks have felt like months."

Since the beginning of the year, 180 international bonds worth $37.6bn have been issued, compared with 133 deals totalling $24.6bn in the same period in 1995 and 158 transactions worth $36.4bn in 1993, the previous record year, according to Euromoney Bondware, a UK capital markets database.

Investors have been particularly hungry for D-Mark denominated paper, which has benefited from the rally in German government bonds, fuelled by evidence of continued economic slowdown and speculation of further cuts in German interest rates.

As a result, some 31 per cent of this year's new issuance has been denominated in D-Marks, while US dollars have accounted for 28 per cent. That is a reversal from the usual distribution, where US dollar bonds make up about 40 per cent of issuance. The D-Mark's market share in 1995 stood at 19 per cent while US dollar bonds accounted for 36 per cent of all new issues that year. Sterling bonds made up the third-largest currency sector in terms of issuance, with $3.6bn of new bonds.

Dealers expect investor demand for D-Mark bonds to increase further.

"We believe that in 1996, yields on 10-year German government bonds should fall to 5¾ per cent or lower, and could be 50 to 75 basis points below those on US Treasuries," said Mr Michael Dee, head of bond syndicate at Morgan Stanley, the US investment bank. "That should translate into greater demand by US fund managers for D-Mark bonds and continued high levels of D-Mark issuance in the international bond market."

Already, bond dealers have been reporting significant shifts by international investors out of US dollar holdings into D-Mark denominated bonds, boosting demand for last week's D-Mark offerings. More supply is in the pipeline for this week, with Germany's L-Bank set to issue DM1bn ($600m) of 10-year bonds.

Competition among banks to increase their share of eurobond underwriting business has also contributed to the surge in issuance, with several highly capitalised commercial banks particularly active.

As a result, the bund market this year has outperformed the US Treasury market, which has been overshadowed by political wranglings over the US Budget and a pause in the flow of official economic data due to the partial closure of the government.

This outperformance has seen the yield premium of German government bonds over US Treasuries narrow to seven basis points on Friday, from 24 basis points a week earlier.

Mixed feelings over flood of new issues, Page 22

This week: Company news

SOUTH AFRICAN GOLD

Investors look to Gengold for brighter signs

Investors in South Africa's ailing gold industry will look to **Gengold**, the Gencor subsidiary, for promises of a better year in 1996, when the group unveils its second quarterly report tomorrow, *writes Mark Ashurst.*

The last quarter has been frenetic for Gengold as Mr Brian Gilbertson, chairman of parent Gencor, has spearheaded massive restructuring of the gold division as part of plans to reposition Gencor as a world-class mining house.

Gengold recently disposed of four of its marginal gold mines and invested heavily in operations in the Evander and southern Free State areas.

Anglovaal quarterlies are also due tomorrow, followed on Thursday by those of **Anglo-American's** gold and uranium divisions, which provide management services to privately-owned mines.

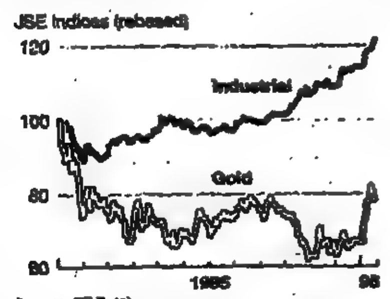
Management contracts will continue to fuel debate after Gencor's move last year to scrap its costly management contracts with smaller "captive" mines – the legacy of financing deals struck by prospectors in less austere times.

Rising production costs have spawned initiatives to woo union co-operation in cost-cutting. "There will be a need to justify existing management structures if mines want to get labour on board," said one analyst.

Johannesburg Consolidated Investments, the mining and industrials holding group earmarked by parent Anglo-American for unbundling, will also unveil quarterly gold and minerals results on Thursday. The stock price has long reflected uncertainty over JCI's future, with the discount slightly higher than the 15 per cent average for industrials. JCI will remain in the spotlight on Friday when it is expected to announce a hedge on bullion sales to fund capital investment at its Western Areas mine.

South Africa

JSE indices (rebased)



Source: FT Extel

OTHER COMPANIES

Markets fuel growth at Wall St firms

US banks and securities houses are expected to post strong increases in fourth-quarter earnings over the coming weeks, with growth fuelled mainly by trading activities in financial markets, *writes AFX in New York.*

Earnings will benefit from a falling interest rate environment and a positive comparison with a very weak period a year earlier. The quarter will also be marked by continued high levels of credit quality, say analysts.

Ms Diane Glossman of Salomon Brothers said money centre bank results had a "decent trading quarter tempered by lacklustre seasonality" as traders squared up positions for year-end accounting. She said the equity market had "stayed strong" to the end of the fourth quarter, raising the prospects for large trading gains. Conditions in other areas, such as retail banking, were difficult to judge.

Mr Ryan O'Connell of Moody's said business conditions for the securities houses had improved in the fourth quarter, after an already favourable year. Earnings at the securities houses were also supported by heavy issuance of investment grade debt and increased equity underwriting.

The favourable trading environment and a crescendo in mergers and acquisitions activity should also boost earnings, he said, noting that comparisons with the "awful" fourth quarter of 1994, in which there was very little demand for underwriting, should also be positive.

Mr Jake Newman of Standard & Poor's said operating conditions were "quite good" for the securities houses against 1994 but he added that the quarter was unlikely to set records.

■ *Tomkins:* The UK industrial conglomerate is expected to come under pressure next week to reveal details of its estimated $1bn takeover of Gates Rubber, the US automotive and industrial components manufacturer.

The company, which publishes its first-half results today, has not disclosed the exact value of last month's all-paper offer. The deal promises to make Tomkins the world's largest maker of power transmission belts and hose products.

Gates, the privately-owned Colorado group, chose Tomkins as the favoured bidder for its components subsidiary after rejecting rival offers from Tenneco, the Houston-based industrial group, and Dana Corporation, the Ohio car parts manufacturer.

In addition to offering Tomkins shares, the group has also agreed to take on $240m of Gates debt.

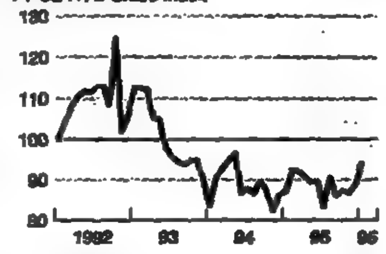
Once completed, the deal would be Tomkins' largest acquisition since its £990m ($1.5bn) takeover in 1992 of Ranks Hovis McDougall, the UK foods group.

Most analysts forecast interim pre-tax profits of about £128m, up from £114.5m.

The improvement is thought to have been fuelled by buoyant demand for milling and baking activities, and steady growth in the fluid controls division.

Tomkins

Share price relative to the FT-SE-A All-Share Index



Source: FT Extel

Its financial performance may have been dented by currency translation. The group could lose out by converting US profits – more than half the total last year – at $1.58 to the pound, against $1.48 last time. A robust trading performance should lift earnings per share from 6.59p to about 7.5p.

■ **Cable and Wireless:** The UK-based telecommunications group, lacking a permanent chief executive since the end of November, holds an extraordinary general meeting today to change its articles of association.

The purpose is to make it possible for a non-Briton to become chief executive, something forbidden when the company was a department of state. Headhunters are seeking at home and abroad.

Shareholders may have the opportunity to quiz directors over the departures of Lord Young of Graffham and Mr James Ross, respectively the former chairman and chief executive.

Companies in this issue

Gucci sale boosts profits at Investcorp

By Alice Rawsthorn

Investcorp, the Bahrain-based investment group, saw net profits rise 38 per cent to $70.3m in 1995 following the successful flotation of Gucci, the Italian fashion house.

Mr Eli Hallach, joint chief operating officer, said the Gucci share sale on the New York stock market in October was a "very significant contributor" to the increase in last year's profits, from $51m in 1994.

Investcorp also benefited from three other disposals. It staged public offers for part of its stake in Circle K, the US convenience stores, and its remaining shares in TLG, the lighting concern. Most of its shares in Computacenter, a UK computer services company, were sold in a private transaction.

The value of Investcorp's assets rose to $1.7bn by the end of 1995 from $1.4bn a year earlier. Shareholders' funds increased to $458.8m from $406.3m over the same period. The board has proposed a dividend payment of $15m, representing 15 per cent of Investcorp's paid-in capital.

The company was founded in 1982 to identify US or European medium-term recovery stocks for investors in the Gulf. Its aim is to retain control of the companies, typically for up to five years, until they recover and can be sold at a profit.

As well as its remaining holding in Gucci, the group's investments include Saks Fifth Avenue, the US stores group; Chaumet, the French jeweller; and Mondi, the German clothing manufacturer.

Mr Hallach said the bulk of last year's profits came from the four corporate divestments, with the remainder derived from investment banking activities and interest income.

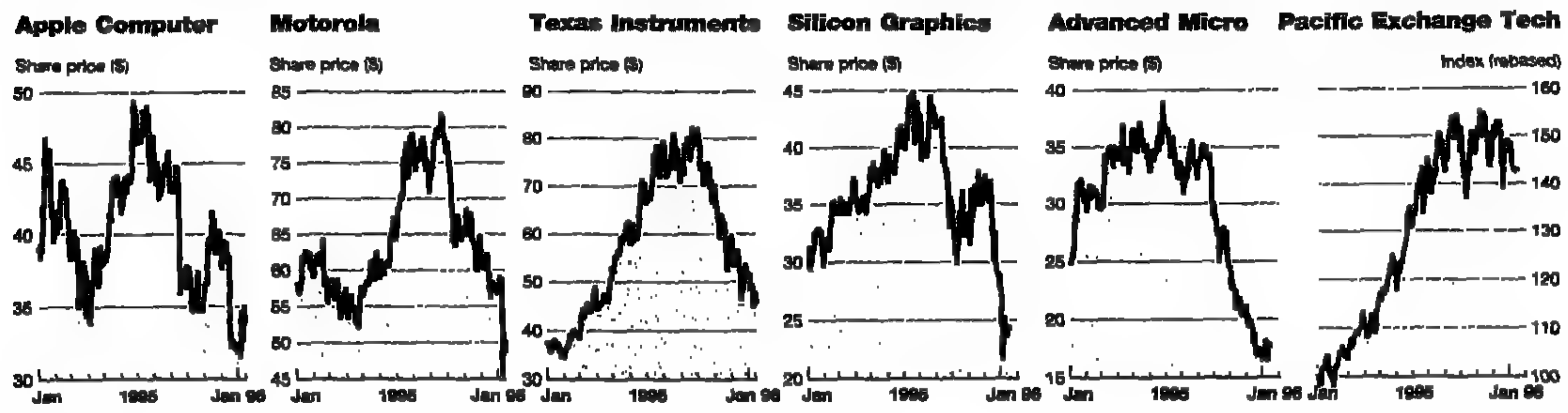
Gucci was the largest of last year's disposals. Investcorp originally planned to sell 16m shares in the company – which went into the red in the early 1990s but has since recovered to become one of the world's leading fashion houses – at $22 each. Demand for the shares was so strong that it sold an additional 8.5m, thereby releasing 49 per cent of the equity.

It will eventually sell its remaining shares in Gucci but has not yet fixed a timetable. Mr Hallach said the group planned a number of divestments for 1996, but the size and timing would "depend on market conditions".

He added that Investcorp had not yet decided when to divest Saks Fifth Avenue, its largest investment, which was acquired for $1.6bn in 1990.

High-tech shake-out could turn into a rout

Analysts insist the fundamentals remain sound, report **Louise Kehoe** and **Paul Taylor**



Source: FT Extel

Nervous American investors fear that the high-tech stock boom of 1995 – fuelled by excitement surrounding the increasing popularity of the Internet and the launch of Microsoft's Windows 95 personal computer operating system – could turn into a rout in 1996.

Some large investment funds, including Fidelity's Magellan Fund with $53.2bn under management, have already reduced their exposure to the volatile technology sector, and many individual investors who jumped on the 'buy technology' bandwagon early last year are following suit.

Over the past few months technology stocks in the US have fallen sharply.

Several factors have contributed to the souring of investor perceptions. First, a handful of companies have blamed price competition in the personal computer, electronic components and cellular telephone markets for lower margins and missed profits forecasts.

Second, price competition is expected to benefit the industry's giants at the expense of second-tier players. Finally, demand for a wide range of products is seen as moderating from the sometimes explosive growth rates of the last year.

Nevertheless, most market analysts and industry executives insist the fundamentals remain sound and that the recent sell-off will prove to be another temporary correction.

"Most growth fund managers invested in technology stocks quite reluctantly last year," said Mr Roger McNamee of Integral Capital Partners, a Silicon Valley investment group. "[Last year] was the first year in the last 15 years when a diversified growth stock portfolio manager in the US could not outperform the market without being a significant owner of technology stocks. But they were not comfortable investing in companies they did not fully understand. At year-end they finally were in a position to get out and they sold like crazy."

As a result Intel, the world's largest chip maker and the dominant supplier of microprocessors to the personal computer industry, has seen its share price drop more than 22 per cent, from a high of $73⅜ in November to close at $56⅝ on Friday. Microsoft, the software market leader, is down 21 per cent from its July peak for a Friday close of $85¾. Hewlett-Packard, International Business Machines and Sun Microsystems have also been marked sharply lower.

With Intel, Microsoft and several other large US information technology companies scheduled to report quarterly results over the next two weeks, high-technology stocks may be in for more big swings.

Early reports from Micron Technology and Motorola, as well as Apple Computer's announcement of anticipated losses and plans to restructure its operations, have fuelled fears that strong earnings are not sustainable in the sector.

Jumping to conclusions, some observers have suggested that the semiconductor industry is expanding capacity too quickly. Plans for about 50 new chip plants, each costing about $1bn, have been announced over the past year.

However, most of these plants will not begin production until 1997, and the decline in D-Ram prices reflects the shift to a new generation of higher capacity chips, rather than a significant softening in demand or excess production. Nonetheless, semiconductor shares have taken a drubbing.

Similarly, Motorola, the world leader in cellular telephones, dragged down the stocks of Nokia and Ericsson in Europe when it reported a sharp drop in fourth-quarter earnings last week. A pricing battle between Motorola and its European competitors is driving down profit margins, and Motorola warned that market conditions could affect its earnings for the next few quarters. In the longer term, however, it stands to benefit from a US transition from analogue to digital cellular telephones.

Meanwhile, Apple Computer's problems, which surfaced last month when it announced that it expects to report a loss for the crucial December quarter, have cast a shadow over the personal computer industry and raised doubts about the strength of sales over the critical Christmas selling season.

Apple's warning has been echoed in Europe where, despite strong PC sales, most manufacturers, including Germany's Escom and Olivetti of Italy, are losing money.

In most cases, however, there are special reasons for these problems. PC sales are expected to top 80m units this year, up from about 65m units in 1995. Sales of computer networking equipment are growing at an annual rate of about 40 per cent and semiconductor sales are expected to rise by about 30 per cent.

Moreover, the Internet, a driving force behind last year's technology stock boom, is continuing to flourish. An estimated 40m computer users now have access to the global web of computer networks, which is spawning hundreds of new businesses selling services online.

More generally, while the technology stock "gold rush" of 1995 may be over, big investors can no longer afford to avoid the sector. "The fund managers will be back. The interesting questions is what will trigger their reinvestment in technology and what will that do to prices," said Mr McNamee.

Previous sector corrections, such as the 19 per cent fall in March and April 1994, have been followed by rallies to new highs. "The fundamentals remain very bullish for this sector," Deutsche Morgan Grenfell said recently. "The sky truly is the limit."

However, most analysts say the broad brush "buy technology" approach that worked in 1995 needs refining – investors on both sides of the Atlantic need to take a longer-term view and become more selective if they are to ride the technology wave successfully.

Iverson picks two to complete Ashley team

By Neil Buckley

Ms Ann Iverson, chief executive of Laura Ashley, will today make the final two appointments to her management team, completing a six-month shake-up that has seen almost all senior positions replaced at the clothing and furnishings group.

Ms Iverson sees the appointments as the "final pieces of the jigsaw", completing the team charged with turning around the performance of the company, which has made only losses or indifferent profits in the 1990s.

The company will name as group marketing director Ms Patricia Manning, currently marketing director of Mothercare, Storehouse's children's wear chain.

Ms Manning was recruited to Mothercare by Ms Iverson when the latter was chief executive there in the early 1990s.

She was previously business director of children's wear at Kingfisher's Woolworths, after 13 years in marketing and strategic planning with Levi Strauss, the clothing group.

The other appointment announced today will be of Ms Deborah Baker, currently human resources director at the UK division of Signet, the jeweller, as group human resources director.

After a reshuffle that has seen a series of departures and appointments in the past few months, the company will be left with only seven main board directors, compared with 13 before Ms Iverson's arrival last June.

Three are executives – Ms Iverson, Mr James Walsh, finance director, and Mr Mike Overton, director for logistics and manufacturing. Non-executives are Lord Hooson, acting chairman due to stand down in the spring, Mr John Thornton, of Goldman Sachs, Mr Takuya Okada, chairman of Jusco of Japan which has 15 per cent of the company, and Sir Bernard Ashley, the co-founder.

Below the main board is an executive committee including today's appointments, plus Mr Stephen Cox, company secretary, Ms Basha Cohen, director of design and buying, Ms Julie Ramshaw, recruited last week from Morgan Stanley as merchandising director, and Ms Carol Rosenfeld, vice-president of US real estate.

3i to open more offices in Germany

By Richard Gourley

3i, Europe's largest provider of equity to private companies, is planning to develop a regional network of offices in Germany to take it closer to its potential customer base.

Mr Neil Cross, 3i's international director, said four new offices would be opened in Hamburg, Düsseldorf, Stuttgart and Munich over the next three years. 3i has had an office in Frankfurt for nine years and has invested about £100m in 50 companies.

Mr Cross said much of 3i's growth in Germany had been through financing buy-outs of family-controlled companies where there was no younger generation to take over.

This type of transaction was on the increase and 3i wanted to be closer to the market in order to take advantage of the growth.

The announcement coincides with the resignation of 3i's joint managing director in Frankfurt, Mr Thomas Schyltter-Henrichsen, who is joining Alpha Group, the French venture capital company, as a partner.

Mr Andrew Richards will take over as the sole managing director in Germany.

Mr Cross said the first office would be open within 18 months, though it could be sooner, at which time regional teams now in Frankfurt would transfer.

Mexico plans return to the US dollar global eurobond market

By Conner Middelmann

Mexico plans to return to the US dollar bond market after a three-year absence with a large offering of five-year paper.

It intends to issue $750m of global bonds, with Merrill Lynch and J.P. Morgan acting as joint lead underwriters. Mexico will hold an international roadshow in late January, and the bonds are to be issued shortly after.

After a structured floating-rate note issue last year which was placed predominantly among banks, this will be the country's first fixed-rate international dollar offering since March 1993, when it issued $200m of five-year eurobonds.

Although Mexico successfully issued DM1.5bn of seven-year eurobonds in the D-Mark market last week, dealers said the forthcoming dollar issue would be the ultimate test of institutional investors' willingness to invest in Mexican debt following last year's peso devaluation, which sparked a heavy sell-off in Mexican debt prices.

"Issuing D-Mark bonds to European retail investors who are keen on high yields is one thing, but selling dollar paper to US institutional investors is another," said one emerging-market debt trader.

However, dealers said prospects for the issue were helped by the improvement in Mexico's economic fundamentals since the peso crisis.

Furthermore, "the current market environment is very conducive to selling high-yielding dollar paper, as witnessed by the recent rally in Brady Bonds and other emerging-market instruments," said the trader.

Maybelline back in play after rival bid

By Richard Tomkins in New York

Maybelline, the US cosmetics company that last month agreed to a $660m cash offer by L'Oréal of France, has been thrown back into play following a surprise approach from Joh.A. Benckiser, the German consumer products group.

Maybelline said it had received an unsolicited letter from Benckiser offering to buy it for an unspecified cash price that would be "materially higher" than the $36.75-a-share offered by L'Oréal.

The US company also revealed that it had received an earlier offer from Benckiser at the time it had agreed to a takeover by L'Oréal, but that Benckiser's offer of $36 a share had fallen short of L'Oréal's.

Late on Friday, Maybelline said its directors had decided not to take any action in response to Benckiser's letter because it failed to specify a proposed acquisition price.

The privately-held Benckiser is one of the world's biggest consumer products groups. Based in Ludwigshafen, it came to prominence through a series of cross-border acquisitions in the late 1980s, as a result of which it operates in more than 20 countries.

The group makes a wide range of household products, fragrances and cosmetics. Its portfolio includes mass-market fragrances such as Cōty, suggesting possible synergies with Maybelline's range of mass-market cosmetics.

Benckiser said in its letter to Maybelline that it had more than $1bn in cash available for the acquisition, and that its offer was therefore not contingent on its ability to raise the necessary finance.

It said its offer was more attractive than L'Oréal's because an acquisition by L'Oréal would increase concentration in the US market for mass market cosmetics, so raising anti-trust issues.

Benckiser said there was a significant risk that L'Oréal's offer would not close as planned because of opposition from the US Department of Justice. But its own offer raised no such issues, and was therefore "more certain to close in a timely fashion".

However, the Benckiser offer raises complications because Wasserstein Perella, the New York investment house which owns 28 per cent of Maybelline, has irrevocably committed its stock to L'Oréal. The commitment can only be broken if L'Oréal agrees or if the deal falls through on anti-trust grounds.

Telmex hit by shareholder concern

By Daniel Dombey in Mexico City

Shares in Teléfonos de Mexico, Mexico's telecommunications giant, fell almost 6 per cent on Friday, pushing the IPC index down 2.11 per cent to 2,934 points, despite indications that the group controlling it plans to increase its holding.

The decline responded to concerns that Grupo Carso, a Mexican holding company with a $1.4bn, 8.4 per cent controlling stake, was trying to distance itself from Telmex with its announcement of plans to divide into two groups

Telmex, which has had a monopoly on long-distance calls in Mexico since privatisation, faces the onset of competition later this year, and from January 1997 will be obliged to provide rivals with interconnections to its local network.

"It's absurd to say we've lost interest in Telmex. Our participation has increased and will continue to increase," said Mr Fernando Chico Pardo, chief executive of Grupo Carso.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
CSW (US)	Seeboard (UK)	Power	£1.6bn	DTI OKs
Wisconsin Central Transportation (US)	Trainload Freight (UK)	Rail transport	£225m	Rail privatisation continues
Suntory (Japan)	Hinckley & Schmitt/ Sierra Spring (US)	Soft drinks	£187m	Générale des Eaux disposal
Fyffes (Ireland)/ Wibdeco (Windward I)	Unit of Geest (UK)	Food	£147.5m	Fyffes shareholders approve
Kingfisher (UK)	BUT (France)	Retailing	£59.3m	New French goal
Adflex Solutions (US)	Unit of Xyratex (UK)	Electronic components	£36m	Flexible friends
Electrolux (Sweden)	Refripar (Brazil)	Electrical goods	£32.2m	Lifting stake to 51%
KLM (N'lands)	Kenya Airways (Kenya)	Airlines	£16.8m	Stake launches partnership
UCB (Belgium)	Cellophane (UK)	Packaging	£15m	Courtaulds non-core disposal
Matsushita (Japan)	Plasmaco (US)	Electronics	n/a	Flat screen buy

Czech bank awards bond mandate

By Vincent Boland in Prague

CS First Boston, the investment bank, has won a mandate to advise Czech bank Komercni Banka on a debut Eurobond issue later this year.

CS First Boston beat stiff competition from other western investment banks for the mandate – for what will be the first Eurobond issue from central Europe's emerging markets by a company that does not have the state as a majority owner.

Apart from being the first Czech bank to launch such an issue, Komercni will also be only the second Czech company to do so, after the electricity utility CEZ, which raised $150m in 1994.

The size of the bond and its timing have not been decided. Prior to the issue, Komercni – the main commercial bank in the Czech Republic – will seek an investment grade rating from western credit rating agencies, in which it will also be advised by CS-FB.

The Czech Republic is rated A by Standard & Poor's and Baa1 by Moody's Investors Service. CEZ is rated BBB– by S&P. Komercni, a bellwether of the Czech economy, is likely to be rated comfortably above the investment grade level.

Last year it entered the international syndicated loan market for $75m. Two other local banks also entered that market.

Bankers in Prague say Komercni could start a trend among Czech banks towards Eurobond issues in 1996 as they continue to diversify their sources of funding.

NEWS DIGEST

Fund managers turn against UK

British fund managers have turned against the UK stock market and plan to raise their stakes in the Pacific basin, especially Japan, according to a survey carried out by the Gallup polling organisation for Merrill Lynch, the US-based financial services group.

Managers planning to cut their holdings of UK equities outnumbered by 12 per cent those planning to increase their exposure. This is the most negative reading the Merrill survey has given for six years. Most fund managers remain optimistic about the UK equity market for the next three months, but much less so over a 12-month perspective, despite 80 per cent expecting an improvement in the general economic situation. For more than two years, the survey has consistently shown managers eager to increase their holdings in Japanese equities. Japan was the worst performing market for UK institutions last year, yet the bullish sentiment remains stronger than ever.

The 83 institutions questioned, who manage £880bn of funds, turned into sellers of European shares this month for the first time in nine months. They remain heavy sellers of US equities, although three-quarters pick the US dollar as their favourite currency over the next 12 months.

George Graham, London

New chief for Banque Indosuez

Mr Christian Maurin, head of the Suez group's Sofinco consumer credit business, is to take over Banque Indosuez in a two-stage operation that starts today with his nomination by the bank's board as vice-president.

Mr Maurin will not only replace Mr Jean-Francois Le Petit, who is leaving Banque Indosuez after two years as its vice-president, but later this month will become president of the executive board in a new two-tier structure which a shareholders meeting has been called on January 23 to approve. Mr Gérard Mestrallet, overall head of the Suez financial group, will become president of a new supervisory board for the bank.

Mr Maurin's arrival is not expected to signal any change in recent strategy. A communiqué on Friday said that Mr Mestrallet and Mr Le Petit had mapped out Indosuez's new strategy "in complete convergence of views", but had agreed that this strategy should be carried out by someone new.

David Buchan, Paris

Ferfin offer period set

The obligatory offer by Mediobanca, the Milan merchant bank, for 158m shares in Ferruzzi Finanziaria (Ferfin), the Italian holding company, is expected to run from January 25 until March 14, following approval of the offer on Friday by Consob, the stock market watchdog.

Mediobanca was compelled to launch the public offer by Consob after accumulating a stake of nearly 10 per cent in Ferfin. The offer, at a price already set at L1,534 per ordinary share, will not apply to shares issued in Ferfin's L953bn ($606m) rights issue launched last month. Mediobanca's stake will rise to around 15 per cent on completion of the offer and after the capital increase. *John Simkins, Milan*

Cerus plans bank closure

Cerus, the French holding company controlled by Mr Carlo De Benedetti, the Italian financier, is to seek shareholder approval this week for the closure of Banque Duménil Leblé, bringing an end to its activities in the banking sector.

The group said it was buying the assets of the bank for their net book value of about FFr1.2bn ($243m), financed through loans from other banks of FFr1bn, which raised its total debt to FFr2bn. It would then liquidate the bank while paying off its creditors in full. The move was in line with the group's stated restructuring strategy. *Andrew Jack, Paris*

Arnotts in profits warning

Arnotts, the Australian food group 67 per cent-owned by Campbell Soup of the US and whose managing director resigned a week ago, has warned that it expects profits to fall in the first half of 1995–96. In a statement to the Australian Stock Exchange, Arnotts said that "due to difficult conditions experienced in the retail sector generally and the food industry in particular over the past six months" it was running below its target of 10 per cent sales growth in 1995–96.

In the first half of 1994–95, Arnotts made a profit after tax and an abnormal charge of A$36.2m (US$27m). The charge of A$17m was largely to cover redundancy costs at the Homebush factory in Sydney. The profit warning comes only days after Mr Paul Bourke, Arnotts' managing director, resigned after four years in the job. He was replaced by Mr Chris Roberts, another senior Arnotts executive.

Nikki Tait, Sydney

Restructuring benefits Babcock

Babcock International, the engineering group, is today expected to signal the first benefits of its three-year restructuring by announcing a raft of international contracts for its materials handling division.

The company, which last September sold 75 per cent of its energy division to Mitsui Engineering & Shipbuilding of Japan, has offset losses in heavy engineering by securing materials handling orders from Brazil, the Philippines, Singapore, China and the US. Babcock is likely to tell investors that it won contracts worth £50m last month alone.

Tim Burt, London

GiroCredit appoints Lacina

Mr Ferdinand Lacina, Austria's former finance minister, has been named chief executive of GiroCredit, the embattled central clearing organisation for the country's savings banks. Giro, Austria's third-largest bank, has been the subject of a power struggle between its two largest shareholders, Bank Austria and Die Erste österreichische Spar-Casse-Bank, for several years. The struggle has become more intense since Bank Austria raised its stake in Giro to a 56 per cent majority early in 1994. Since then, Bank Austria has combined some Giro operations with its own, notably investment banking and some foreign activities. *Ian Rodger, Zurich*

Denial by UK PR firm

Financial Dynamics, the City of London public relations firm, has hit out at reports linking it to a Stock Exchange investigation of possible insider trading in the shares of one of its clients. "We are heartily sick of allegations over which we haven't been given the opportunity to clear our name," said Mr Nick Miles, Financial Dynamics' chief executive. He said the firm had not been contacted by any regulatory agency. He added that there was "absolutely no question of anyone at Financial Dynamics passing privileged or inside information".

The comments follow reports that the exchange had been examining transcripts of a telephone conversation between Mr Tony Knox, Financial Dynamics' chairman, and a stock market analyst at Robert Fleming, the investment bank, shortly before the publication of disappointing results by Caradon, a Financial Dynamics client. On the same day as this conversation, Fleming's fund management arm sold a block of Caradon shares. The exchange refused to comment on whether it was conducting any investigation and Fleming refused to comment on reports it had asked two employees to resign.

George Graham

Michelin reshuffles management

Michelin, the world's largest tyremaker, has announced a new executive committee to help its three top managers: Mr Francois Michelin, his son Edouard, and Mr René Zingraff. At the same time, the group's management is to be reorganised around a single technology centre, nine product lines, 11 service sectors and four geographic zones in order to be "more reactive and closer to markets and clients". *David Buchan*

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Martin Dickson

Threats to the European recovery as Germany warns of contraction

A warning last week that the German economy may have contracted in the fourth quarter coupled with sharp falls in the share prices of several leading continental growth stocks, raises questions about equity asset allocation in Europe this year.

The benign view of Europe's economic slowdown, and that of Germany in particular, is that it is a mid-cycle pause. Growth will resume this year at a modest, non-inflationary pace.

This scenario would appear to lie behind recent signs of investor rotation into cyclicals from the secular growth sectors which performed best in Europe in 1995 - pharmaceuticals, computer software and telecommunications equipment.

High technology growth stocks have fallen particularly out of favour on both sides of the Atlantic, with sharp price corrections across the board since November. And Fidelity Investments, the leading US mutual fund group, has sharply cut its holding in the sector.

However the benign view of Europe's progress seems vulnerable on several counts.

The obsession of its governments with meeting the targets for European monetary union is an unprecedented variable which could mean further fiscal tightening, and a further slowdown in growth this year.

The view also assumes a revival of consumer confidence, which may prove elusive given high unemployment rates and the restructuring which is hitting many once-cosy continental sectors.

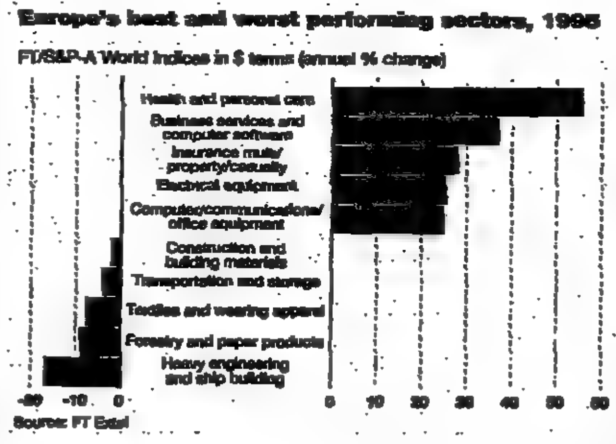
Thirdly, it is predicated, in part, on continued progress by the US economic locomotive, producing slow but steady growth and stable inflation.

But can an American recession be far off? The present expansion is already at, or beyond, the average span of post-war growth periods. More pessimistic economists are starting to question its survival.

For example, Mr Elliott Platt of Donaldson, Lufkin & Jenrette is forecasting a recession late this year or early next. He argues that an economic re-acceleration is implausible as US fiscal policy is already restrictive and will become even more so if a budget deficit accord is ever reached.

Ms Cornelia Small of fund manager Scudder, Stevens & Clark, is also cautious. She reckons there is a 50 per cent probability that the next 12 months will mark the end of the US growth cycle, with Japan and Europe easing and deregulating too little, too late to sustain growth "once the US stops performing its perennial role as the buyer of last resort".

It may not work out like this. At the very minimum both Europe and the US seem likely to benefit over the next six months from monetary easing, as central banks try to prolong the growth cycle. They may yet succeed.



Source: FT Extel

Furthermore, continental European industry is beginning to restructure, albeit slowly and painfully, and may eventually benefit from the kind of productivity and earnings boost that the US has enjoyed for the past few years.

Still, there are growing doubts about the strength and nature of any recovery in Europe and this has implications for sector selection.

The benign interest rate environment should continue to benefit financial services, at least in the first half, while intensifying competition will tend to segregate the best from the also rans.

Falling interest rates may also give an early boost to cyclicals such as cars, chemicals, steel, and household durables, but this may not last for long if earnings expectations prove over-optimistic.

Basic industries, including chemicals and paper, may find it much harder to raise prices at this point in the cycle than they did early in 1995, while subdued consumer confidence may curtail spending on durables.

In a low growth environment, where earnings expectations may be pitched too high, the sectors that do well will be those which promise secure earnings growth. They may include many of the sectors which outperformed last year: secular growth stocks where Europe has a global competitive advantage.

These include pharmaceuticals, broadcasting and publishing (both of which are also in the throes of takeover waves), certain electronics and computer software companies, and mobile telephony, notwithstanding last week's sharp drop in the share price of Nokia.

Mr Mark Howdle of UBS goes so far as to argue that in the 1990s the business cycle seems to be having less of an impact on relative performance than before, and that periods of outperformance by cyclicals and rate sensitives are tending to be shallower and short-lived.

Meanwhile, the main secular growth sectors – technology, media, life sciences – have been achieving steady and sustained outperformance.

"The market," Mr Howdle says, "is showing signs of increasing sensitivity to relative prospects *beyond* the current cycle."

True or not, this year could also see some outperformance by late cycle cyclicals in the transport, utilities and telecommunications equipment sectors, particularly if they have a strong emerging market presence, such as ABB, the engineering group.

Telecommunications services, which underperformed the market last year, may do a little better since investors are likely to remain focused on the threats posed by market liberalisation in 1998, and the huge impending flotation of Deutsche Telekom.

The implication for country allocation is an overweighting in the D-Mark bloc, where there seems greater scope for interest rate cuts, with a particular focus on Germany, where the benefits of industrial rationalisation should start to show through. Switzerland, with its high component of financial service and pharmaceutical stocks, and the Netherlands should also be overweighted.

However, France, where restructuring has yet to be seriously tackled, still demands an underweighting, as does the UK, given its much greater cyclical maturity.

Economics Notebook / Robert Chote

Costs of social transfers

Lord Skidelsky, the Conservative peer and biographer of Keynes, argues in this month's Prospect magazine that Britain's welfare state is in disarray. He claims that it is incoherent, ineffective, anachronistic and that "above all, its costs are escalating apparently beyond control".

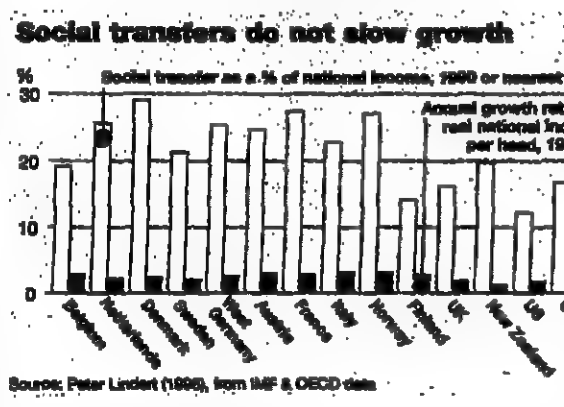
This concern about welfare costs is not, of course, confined to the UK. It is central to the budget debate between Republicans and Democrats in the US and is also an important worry for the many European countries whose governments are struggling to control their borrowing.

The reality, however, is not as alarming as the rhetoric. Ever since the inception of the welfare state people have objected to the resources which it absorbs and the side effects it produces. Their voices are louder now than in the past, but this may have less to do with changing economic realities than with a shifting centre of gravity in political debate.

One can, of course, object to the welfare state on principle. Strict libertarians would contend that redistributing income via taxation and social transfers involves an indefensible confiscation and re-allocation of private property, as does tax-financed government spending on health and education.

However present concerns about welfare focus more on its supposed economic effects. Social spending, it is argued, involves "deadweight costs". Money is wasted on administration and, more fundamentally, income redistribution discourages work effort among both the taxed and the subsidised.

If this is true, then high social spending should damage a country's economic performance.



Source: Peter Lindert (1995), from IMF & OECD data

Mr Peter Lindert, at the University of California (Davis), has assessed this theory by looking at social spending since 1962 by the industrialised countries in the Organisation for Economic Cooperation and Development. He finds no evidence that economies with big social transfer programmes grow more slowly than their low-spending rivals*.

Mr Lindert also finds that the shares of national income which government devote to social transfers have been diverging, at least until the fiscal crises of the early 1990s.

If social transfers clearly impeded growth, one would expect spending in different countries to have been converging to a low level. Instead, high transfer countries are raisingwelfare spending by more than low transfer countries.

But what about anecdotal evidence? Sweden, for example, was hailed as the model social democratic state in the 1980s, but found itself in crisis by the early 1990s. However, this probably had more to do with an unrealistic tough exchange rate target and the collapse of highly coordinated wage bargaining than it did with rampant welfare costs.

So why might the deadweight costs predicted by economic theory appear insignificant when comparing national growth rates?

First, there is evidence that countries which spend a lot on social transfers also tend to have relatively efficient tax regimes. They raise less from direct taxes on income and capital gains – which have serious disincentive effects – and more from relatively innocuous commodity taxes, like value added tax. In 1991 high tranfer governments raised 6 per cent of national income more from commodity taxes, but 3 per cent less from direct taxes, than low transfer governments.

Second, governments spending a lot on transfers tend to economise in other areas, such as defence and industrial subsidies.

But if social transfer spending does little harm, why is political debate in so many countries obsessed with the need to shrink it? The answer may lie in the rise in wage inequality which has taken place in most industrialised countries.

As inequality increases, the pivotal middle-class voters on whom election results depend are less likely to look at their poorer fellow citizens and think: "There but for the grace of God go I".

Income redistribution therefore looks to them less like an insurance policy against possible misfortune and more like an uncompensated confiscation of their hard-earned wages.

The political consequences are magnified when, as in the US, many of the poor do not vote. This means that the pivotal voters are found higher up the income scale.

When pivotal voters feel that they are unlikely to benefit from social transfers, it is hardly surprising that scare stories about costs abound. Hence the shameful demonising of single parents and the recent assertion by an editorialist on US National Public Radio that the government there had reached a "grotesque size".

In fact many components of US welfare spending are stable or shrinking relative to the economy, with only health care posing a serious problem.

The emergence of large budget deficits has enforced welcome fiscal discipline in many countries. It is certainly true that governments cannot afford forever to spend money on welfare which they are not prepared to recoup from taxes, a lesson which it is all the more important to learn when ageing populations have to be paid for.

But it does not follow that spending on social transfers is in itself necessarily economically damaging and that it should therefore be singled out for budget cuts.

**What limits social spending? by Peter Lindert, Explorations in Economic History, January 1996.*

COMMODITIES — Richard Mooney

Brazil hosts coffee meeting

Representatives of coffee producing countries will gather in Varginha, Brazil, today to discuss the stance they should take at next week's meeting of the International Coffee Organisation, which includes consumers as well as producers, in London.

Delegates to the Association of Coffee Producing Countries will consider the setting of tighter export curbs in an attempt to arrest the recent sharp decline in world prices, the Ivory Coast government said last week.

Futures values staged a modest rally last week but are still about 46 per cent below last year's highs.

Apart from possibly lower export limits the ACPC meeting could also decide "to strengthen control measures on the flow of quarterly exports with controls managed by a first class international auditor", the Ivorian government statement said.

It added that the talks were called on the advice of Ivorian commodities minister, Mr Guy Alain Gauze, who is the ACPC's first vice-president and the spokesman for African coffee producers.

Among the other participants in Varginha will be Mr Jose Eduardo de Andrade Vieira, the Brazilian agriculture minister, Mr Gilson Ximines Abreu, president of Brazil's National Coffee Council, and Mr Jorge Cardenas, head of the Colombian Coffee Federation.

● Other events this week include a new round of negotiations between South Africa's De Beers Consolidated Mines and Russia about the world diamond market. The talks begin in Moscow today and could last all week, a De Beers official told the Reuters news agency.

Russia has been unhappy with the South African company's management of its world diamond sales, through its Central Selling Organisation, but market analysts are optimistic about the outcome of this week's talks. "If you look at the share price, it is pretty clear the market takes a positive view," one told Reuters.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JANUARY 12 1996 US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY JANUARY 11 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (61)	192.43	1.3	184.38	127.81	144.13	171.49	0.9	3.90	193.60	185.82	127.99	144.83	172.31	198.40	157.95	165.83
Austria (26)	185.14	6.1	177.40	122.97	138.67	138.50	6.7	1.81	184.19	176.79	121.77	137.61	137.44	199.28	167.48	180.97
Belgium (34)	214.03	2.3	205.09	142.17	160.31	156.30	3.0	3.35	213.64	205.05	141.23	159.60	155.65	215.22	168.86	187.75
Brazil (28)	152.59	10.7	146.31	101.42	114.36	273.38	10.6	1.61	149.57	143.56	98.88	111.74	267.80	160.23	86.08	143.22
Canada (101)	149.47	0.7	143.22	99.28	111.95	147.42	0.6	2.53	149.79	143.74	99.00	111.88	148.15	153.19	121.81	126.72
Denmark (33)	299.24	3.6	286.73	198.76	224.19	229.74	4.2	1.44	297.38	285.41	196.56	222.15	224.84	299.24	246.19	253.77
Finland (24)	181.79	-2.9	174.13	120.71	136.12	169.38	-2.4	1.81	175.94	168.87	116.31	131.44	160.72	276.11	171.13	192.27
France (99)	182.03	1.5	174.42	120.91	136.34	140.93	2.4	3.09	181.06	173.79	119.70	135.27	140.11	191.17	157.79	162.10
Germany (60)	169.49	3.5	162.40	112.58	126.95	126.95	4.2	1.88	168.03	161.28	111.09	125.53	125.53	169.49	138.77	142.45
Hong Kong (59)	409.66	5.7	392.53	272.10	306.83	406.57	5.7	3.52	405.05	388.78	267.78	302.61	402.14	409.66	277.40	293.70
Ireland (16)	261.92	2.5	250.97	173.97	196.18	230.66	2.7	3.32	257.48	247.14	170.22	192.36	227.19	262.70	204.87	208.80
Italy (59)	73.23	-0.7	70.17	48.64	54.85	86.06	-1.4	1.70	73.32	70.38	48.47	54.78	86.09	82.71	65.45	73.88
Japan (482)	153.10	-1.2	146.70	101.69	114.67	101.69	0.7	0.75	154.62	148.40	102.22	115.51	102.22	164.82	136.95	154.44
Malaysia (108)	520.55	7.3	498.79	345.76	389.89	513.73	8.3	1.62	513.98	493.33	339.79	383.98	505.96	561.95	386.16	437.68
Mexico (18)	1145.81	10.8	1097.91	761.07	858.21	9358.20	7.2	1.49	1164.54	1117.75	769.87	870.00	9531.15	1247.33	647.81	1109.28
Netherland (19)	277.89	1.8	266.27	184.56	208.14	204.72	2.6	3.18	276.53	265.42	182.81	206.59	203.12	280.48	218.86	216.86
New Zealand (14)	78.82	-1.0	75.53	52.36	59.04	63.24	-2.2	4.55	79.21	76.03	52.37	59.18	63.94	85.49	71.01	72.06
Norway (33)	237.93	2.9	227.98	158.04	178.21	204.33	3.0	2.05	239.12	229.51	158.08	178.64	205.31	245.79	202.76	207.31
Singapore (44)	429.34	5.4	411.38	285.18	321.58	291.54	6.1	1.43	423.06	406.08	279.68	316.05	277.29	429.34	313.94	343.74
South Africa (45)	421.74	9.4	404.10	280.13	315.88	334.86	9.1	3.53	416.86	400.11	275.59	311.45	330.36	421.74	281.09	312.65
Spain (37)	167.55	1.4	160.54	111.29	125.49	153.79	1.3	3.99	166.75	160.05	110.24	124.58	152.70	168.91	124.10	124.92
Sweden (47)	311.90	-0.1	298.86	207.17	233.62	304.38	-0.6	1.97	310.92	298.43	205.55	232.28	302.63	324.31	232.23	266.19
Switzerland (40)	234.24	-0.7	224.45	155.59	175.45	168.57	0.1	1.58	233.94	224.54	154.66	174.77	168.02	239.55	162.35	166.46
Thailand (46)	184.60	9.7	176.88	122.61	138.26	181.06	10.1	2.25	182.35	175.02	120.55	136.23	178.68	184.60	130.15	139.80
United Kingdom (206)	227.87	-1.2	218.35	151.36	170.68	218.36	-0.8	4.25	227.26	218.15	150.25	169.79	218.15	232.23	191.53	193.41
USA (634)	245.13	-2.4	234.88	162.82	183.60	245.13	-2.4	2.30	245.40	235.54	162.24	183.34	245.40	253.50	188.88	188.88
Americas (781)	224.11	-2.1	214.74	148.86	167.88	188.32	-2.2	2.30	224.35	215.34	148.32	167.61	188.56	231.16	174.19	174.19
Europe (733)	201.83	0.5	193.39	134.06	151.17	171.46	0.9	3.06	201.00	192.93	132.88	150.16	170.60	204.32	167.26	167.91
Nordic (137)	277.29	0.5	265.69	184.18	207.69	234.66	0.4	1.86	275.48	264.41	182.12	205.80	232.62	285.02	222.22	227.98
Pacific Basin (634)	165.00	-0.1	158.10	109.60	123.58	112.93	1.4	1.19	166.12	159.45	109.82	124.10	113.25	171.57	145.93	160.30
Euro-Pacific (1367)	180.24	0.1	172.70	119.72	135.00	136.16	1.2	2.06	180.55	173.29	119.36	134.88	135.10	183.39	154.73	163.37
North America (735)	239.18	-2.3	229.18	158.87	179.15	238.53	-2.3	2.31	239.46	229.84	158.31	178.90	238.83	249.93	185.03	185.03
Europe Ex. UK (527)	182.97	1.4	175.32	121.53	137.04	146.25	1.9	2.41	182.07	174.76	120.37	136.02	144.27	184.81	149.99	150.51
Pacific Ex. Japan (352)	278.88	4.7	265.30	183.91	207.38	244.27	4.8	3.02	275.01	263.98	181.81	205.46	242.46	276.86	211.19	221.06
World Ex. US (1759)	181.74	0.5	174.14	120.72	136.12	139.29	1.4	2.10	181.99	174.68	120.31	135.96	139.18	184.71	155.42	163.90
World Ex. UK (2187)	199.17	-0.7	189.88	131.63	148.43	165.01	-0.1	1.87	198.50	190.52	131.23	148.29	166.02	202.05	162.46	168.96
World Ex. Japan (1911)	227.72	-0.6	218.19	151.25	170.56	213.12	-0.5	2.63	227.38	218.25	150.32	169.87	213.17	232.30	181.60	181.63
The World Index (2393)	200.79	-0.7	192.39	133.37	150.39	169.78	-0.2	2.18	201.04	192.96	132.91	150.19	169.77	204.65	165.92	171.11

Base values: Dec 31, 1986 = 100, Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 120.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). CONSTITUENT CHANGE WITH EFFECT 15/1/96: Deletion: Bank South Corp (USA). CONSTITUENT CHANGES DURING THE WEEK ENDING 12/1/96: Deletions: Banco Exterior (Spain), Groupe De La Cite (France), Kemper Corp (USA) and Midlantic Corp (USA).

EMERGING MARKETS

FT CORRESPONDENTS LOOK BACK AT HOW EASTERN EUROPEAN BOURSES FARED IN 1995 AND CONSIDER EXPECTATIONS FOR 1996

Investors in Russia look for political stability

By John Thornhill in Moscow

It is impossible to predict what will happen tomorrow in Russia – and even what happened yesterday is subject to dispute.

As one nineteenth century aristocrat famously observed: "God decrees the future but the Tsar can remake the past."

Such thoughts must daunt any investor attempting to peer into the future to assess the potential for the development of capitalism in Russia.

Will future chroniclers record that the eye-catching explosion of Russia's infant capital markets in 1994 was the beginning of one of the greatest investment surges of the 21st century, or will they, like Mr George Soros, dismiss it as one of the "weirdest stock market booms in history"?

Russia's fledgling stock market, with a total value of just $16bn, appears to be swayed almost entirely by the whims of foreign investors who are themselves the victims of emerging markets fashion. Last year, there was a high correlation between the performance of the Russian, Thai and Mexican stock markets, no matter how absurd that may seem. Investors were transfixed with the rise of Wall Street and unprepared to look much further afield.

The market performed dismally as a result, with the Moscow Times index of leading Russian stocks falling 30.4 per cent in US dollar terms.

Things have started brighter this year and there has been a renewed wave of interest in eastern European bourses. But there are several reasons to believe Russia may decouple itself from the trend in 1996.

The main factor overshadowing the Russian market is the presidential election scheduled for June 16. After the strong showing of the Communist Party in last month's parliamentary elections, Russia's left is riding high and their leader, Mr Gennady Zyuganov, could become president.

Mr Zyuganov has been keen to reassure foreign investors that the communists do not want to turn the clock back. Nevertheless, a communist victory would be bound to undermine the equity market – at least until Mr Zyuganov's intentions became clear.

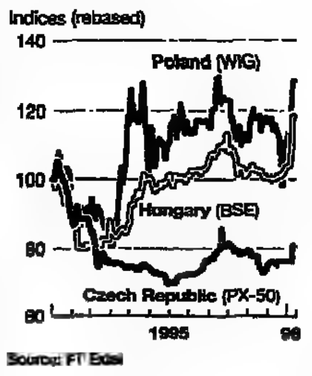
Despite such political uncertainties, some analysts argue now is the time to buy Russian stocks while prices are low. On technical grounds alone, 1996 could certainly be a good year. The economy may register its first growth this decade. The OECD is forecasting a 2 per cent rise in GDP.

The IMF appears to be close to an agreement with the Russian government extending a three-year $9bn loan. That would allow the government access to international capital markets, driving down the stratospheric yields on its Treasury-bills. That might encourage Russian banks to take more interest in returns available in the equity market. Improvements in the infrastructure of the stock market should also increase the number of US investors.

"1995 was the watershed year for Russia's economy and 1996 will mark the political watershed," says one western fund manager. "If we get through June okay and a moderate president is elected, then money should flood into Russia in the second half."

East Europe

Indices (rebased)



Source: FT Extel

Hungary optimistic for 1996

By Virginia Marsh in Budapest

The Budapest Stock Exchange which showed a modest gain of just 4 per cent last year, had a roaring start to the new year – a surge in foreign interest helped the BUX index to a 10 per cent rise in the first week of January. The BUX closed on Friday at 1,696, up from 1,690 on January 5 and from 1,529 at the end of last year.

Brokers are confident 1996 will be a better year for the exchange than 1995. Investor confidence has been restored following a spate of large-scale privatisation deals late last year, the basis of an agreement with the IMF, a much-improved set of macro-economic indicators and the convertibility of the forint from January 1.

However, there remains a foreign exchange risk. The forint was devalued by some 28 per cent in 1995 and is likely to be devalued by a further 15 per cent this year.

One of this year's highlights will be the expected sale of a further tranche of Mol, the oil and gas company. Although there are relatively few large state companies left to sell, the BSE hopes to make up for the shortage of domestic stocks by allowing foreign companies to list, a move planned for the first half of this year.

Czech Republic waits for election

By Vincent Boland in Prague

After a three-week holiday break and a move to new premises, the Prague stock market reopened with a bang at the start of last week. In two days of trading to Tuesday the market's main PX50 index rose by more than 5 per cent in a post-Christmas rush to buy shares in high-capitalisation stocks.

Although 1995 was a poor year for equities, it ended on a positive note as more foreign investors returned to a market that was once the darling of western institutions. Analysts are confident that 1996 should see a better performance if the trend towards consolidation and takeovers, seen in the final quarter, continues.

The most important factor in the first half of 1996 will be the general election in June. The conservative coalition, led by prime minister Mr Vaclav Klaus, is poised to remain in office, but there are likely to be jitters ahead of the vote.

The imminence of the election means there will be no large privatisation issues, which will have a positive impact on the market's liquidity. And analysts suggest that any jitters should be seen as a buying opportunity ahead of any surge in share prices.

Another key issue will be legislation on protection of minority shareholder rights. A package of rules, including disclosure rules for takeovers, is being proposed by Mr Tomas Jezek, one of the architects of mass privatisation who is tipped as a future chairman of the Prague stock exchange.

These changes are widely anticipated, but Mr Jezek has still to secure support for their passage through parliament. Given the clamour that has built up in favour of new rules, investors could even be disappointed by Mr Jezek's amendments. Nevertheless, there is a consensus in favour of change, which should add to the comfort level of investors.

The post-election period could also see an easing of restrictions on foreign purchases of shares in the leading Czech banks.

Anaylsts remain cautious about quantifying the market's performance, however, given the importance of sentiment and asset allocation factors.

Mr Alex Angell of Wood & Co, a Prague stockbroker, warns that it is not yet clear to what extent central European markets will benefit from capital flows. But, "if earnings growth can be sustained, there is helpful legislation [on minority protection] and there are no surprises in the election, share prices should rise by between 5 and 20 per cent" this year.

Active new year for Polish market

By Christopher Bobinski in Warsaw

Analysts are detecting the hand of the foreign investor to explain the 15.5 per cent rise in the stock exchange's Wig index since the new year. "There is certainly greater activity in the whole region by investors from abroad," says Mr Roger Monsoon of Daiwa Europe, commenting on the growth.

One local mutual fund manager agrees, adding that even though the recent 2 per cent cut in the central bank's key lombard rate has stirred local investors to greater activity, nothing else has changed at home to explain the new year take off. "People abroad ... have earmarked emerging markets as an area of activity for 1996 – and some of that has come into Poland."

Mr Leslaw Paga, the former head of the Securities Commission and now head of Deloitte and Touche in Warsaw, notes that it does not take much capital to make a splash. Now capitalised at $5bn and trading 53 stocks on the principal floor the stock exchange was seeing daily turnovers as low as 40m zlotys ($16m) late last year. Last week, as the Wig rose, daily turnover still averaged only 120m zlotys.

Following the presidential defeat of Mr Lech Walesa and the return to power of the former communists, investors hesitated about jumping in. "Now people appear to have decided it is alright to spend and are coming back," says Mr Stan Szczurek, head of ING's operations in Poland.

In contrast to markets like Russia, Poland is well regulated and transparent. Also, the companies quoted on the bourse are reporting profits and operating in an economy which is set to grow by 5.5 per cent this year.

However, the rally could well be running out of steam as small, local investors jump in to sell and recoup some of last year's losses. "The market will stay volatile until strong local financial institutions like pension funds appear," says Mr Paga.

ING Baring Securities Emerging Markets Indices

Index	12/1/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (396)	155.75	+1.39	+0.90	+11.55	+8.01	+8.19	+5.55
Latin America							
Argentina (22)	96.60	-3.56	-3.54	+13.47	+16.16	+4.02	+4.33
Brazil (23)	201.18	-0.18	-0.09	+15.18	+8.15	+15.08	+8.10
Chile (16)	194.82	-1.98	-1.01	+6.60	+3.51	-0.85	-0.43
Colombia (14)	165.11	-3.12	-1.86	+6.18	+3.89	+0.86	+0.52
Mexico (23)	81.34	+0.39	+0.48	+12.80	+16.33	+7.74	+10.52
Peru(15)	1,074.34	-54.20	-4.80	+84.92	+8.58	+5.39	+0.50
Latin America (113)	130.79	-1.20	-0.91	+12.92	+10.96	+7.65	+6.21
Europe							
Greece (18)	99.32	+1.84	+1.88	+3.76	+3.93	+1.35	+1.38
Portugal (20)	122.38	+2.88	+2.41	+8.74	+7.69	+5.92	+5.09
Turkey (26)	96.22	+9.14	+10.49	+10.15	+11.79	+13.42	+16.21
South Africa (32)	166.96	+5.08	+3.14	+11.66	+7.51	+13.59	+8.86
Europe (96)	131.79	+4.37	+3.43	+9.35	+7.63	+10.25	+8.44
Asia							
China (24)	46.60	-0.57	-1.22	+4.82	+11.53	+6.28	+15.56
Indonesia (32)	146.57	+4.67	+3.25	+9.53	+6.86	+9.93	+7.16
Korea (23)	132.05	+1.12	+0.86	-12.79	-8.83	-4.85	-3.54
Malaysia (24)	237.85	+2.12	+0.90	+14.01	+6.26	+10.49	+4.61
Pakistan (14)	72.06	+0.69	+0.97	+3.87	+5.68	-1.54	-2.09
Philippines (14)	275.75	+1.87	+1.42	+32.87	+13.53	+16.58	+6.40
Thailand (25)	270.96	+0.82	+0.30	+23.26	+9.39	+19.08	+7.57
Taiwan (31)	125.56	+3.91	+3.21	+1.84	+1.49	-5.36	-4.02
Asia (187)	210.36	+2.86	+1.38	+10.57	+5.29	+7.31	+3.60

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities

CURRENCY MARKETS Graham Bowley

Exchanges focus on slowdown

Economic slowdown in Germany and the US, political developments in Italy and the UK and a possible interest rate cut in France are likely to be the issues dominating foreign exchange markets this week.

The first US economic data for several weeks will be published after being suspended due to the protracted budget negotiations.

With no US data to focus on in recent sessions, traders have instead turned to German figures which have shown the sharp downturn there.

The D-Mark has suffered as a result while high-yielding currencies such as the Spanish peseta have benefited. The dollar – and US bonds which the currency has tended to follow – has remained placid.

But the data this week may at last push the dollar out of its current ranges. Most important could be payroll figures, which, if weak, could cause the currency to weaken.

Negotiations between Republicans and the White House over the disputed budget are expected to resume this week but no resolution is expected.

The Italian lira will be a focus of attention after Mr Lamberto Dini, the Italian prime minister, resigned last week.

The Bundesbank council meets on Thursday but analysts anticipate no change in German interest rates. However, the Bank of France is expected to cut interest rates when it meets on Thursday.

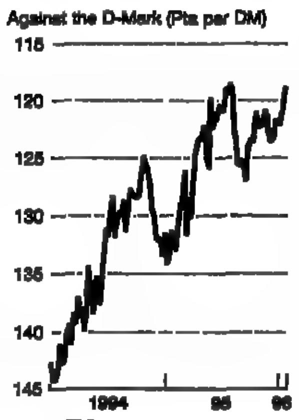
In the UK, division within the ruling Conservative party and the government's thin parliamentary majority is likely to test investors confidence in sterling – although the pound has so far remained stable.

The governor of the Bank of England and the chancellor meet on Wednesday to discuss policy. Economists think there is a reasonable chance of an interest rate cut this month or next month. Figures on Thursday are expected to show that inflation remains low.

Finance ministers and central bank governors from the Group of Seven leading industrialised nations meet in Paris at the weekend.

Peseta

Against the D-Mark (Pts per DM)



Source: FT Extel

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, January 12, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7349.20	4750.00	3297.01	4520.37
Albania	(Lek)	145.205	93.8500	65.1420	89.3128
Algeria	(Dinar)	81.6524	52.7614	36.6221	50.2107
Andorra	(French Fr)	7.6361	4.9356	3.4258	4.6970
	(Sp Peseta)	187.461	121.165	84.1015	115.307
Angola	(Kwanza)	8806.85	5692.00	3950.85	5416.83
Antigua	(E Carib $)	4.1775	2.7000	1.8741	2.5695
Argentina	(Peso)	1.5468	0.9996	0.6938	0.9512
Armenia	(Dram)	621.9740	402.000	279.031	382.565
Aruba	(Florin)	2.7695	1.7900	1.2425	1.7035
Australia	(Aus $)	2.0731	1.3400	0.9301	1.2752
Austria	(Schilling)	15.6746	[illegible]	7.0322	9.6416
Azerbaijan	(Manat)	6869.57o	4440.00	3081.84	4225.35
Azores	(Port Escudo)	231.253	149.470	103.748	142.244
Bahamas	(Bahama $)	1.5472	1	0.6941	0.9517
Bahrain	(Dinar)	0.5833	0.3770	0.2617	0.3588
Balearic Is	(Sp Peseta)	187.461	121.165	84.1015	115.307
Bangladesh	(Taka)	62.6596	40.5000	28.1113	38.5421
Barbados	(Barb $)	3.1119	2.0113	1.3961	1.9141
Belarus	(Rouble)	20887.2o	13500.0	9370.44	12847.4
[illegible]					
Fr. Cty/Africa	(CFA Fr)	763.610	493.560	342.584	469.699
Fr. Guiana	(Local Fr)	7.6361	4.9356	3.4258	4.6970
Fr Pacific Is	(CFP Fr)	139.178	89.9545	62.4381	85.6057
Gabon	(CFA Fr)	763.610	493.560	342.584	469.699
Gambia	(Dalasi)	15.2399	9.8500	6.8370	9.3738
Germany	(D-Mark)	2.2289	1.4407	1	1.3711
Ghana	(Cedi)	2251.18	1455.00	1009.93	1384.66
Gibraltar	(Gib £)	1	0.6463	0.4486	0.6151
Greece	(Drachma)	365.785	236.425	164.104	224.995
[illegible]					
Nicaragua	(Gold Cordoba)	12.3389	7.9750	5.5355	7.5895
Niger Rep	(CFA Fr)	763.610	493.560	342.584	469.699
Nigeria	(Naira)	34.0384o	22.0000	15.2704	20.9364
	(Naira)	132.436m	85.6000	[illegible]	81.4617
Norway	(Nor. Krone)	9.7889	6.3271	4.3917	6.0212
Oman	(Rial Omani)	0.5957	0.3850	0.2672	0.3664
[illegible]					
Western Samoa	(Tala)	3.9189	2.5329	1.7581	2.4105
Yemen (Rep of)	(Rial)	77.3600o	50.0000	34.7054	47.5828
Yemen (Rep of)	(Rial)	216.608r	140.000	97.1750	133.232
Yugoslavia	(New Dinar)	7.3861(2)	4.7809	3.3046	4.5307
Zaire Rep	(Zaire)	18411.7	11900.0	8259.87	11324.7
Zambia	(Kwacha)	1523.99	985.000	683.695	937.381
Zimbabwe	($)	14.4470	9.3375	6.4812	8.8861

Special Drawing Rights January 11, 1996 Utd Kingdom £0.958071 Utd States $1.48022 Germany DM2.12436 Japan Y154.979 European Currency Unit Rates January 12, 1996 Utd Kingdom £0.845084 Utd States $1.30523 Germany DM1.88045 Japan Y137.598

Abbreviations: (a) Free rate, (m) Market rate; (o) Official rate; (p) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Venezuelan Official rate devalued on 11/12/95. Market rate derived from Brady bond trading. (2) Yugoslavian Dinar devalued on 28/11/95. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365 To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls charged at 39p/minute cheap rate, 49p/minute at all other times

Friday, January 12, 1996

ATHENS STOCK EXCHANGE Jan 5th - Jan 12th 1996 GREECE

ASE INDEX	919.46	P/E 95e (after tax)	12.8	GDP (USD bn) 95e	108.82
%Chg (Prev. Wk)	1.51	P/E 94 (after tax)	16.2	Per Capita Income (USD)	10,804
Yearly High	956.75	EPS GROWTH (%) 95e	22.1	Inflation Rate (% Y O Y, December 95)	8.10
Yearly Low	782.22	P/CE 95e/94	7.8 10.0	12 Month T-bill (% end of December issue)	14.20
WEEKLY VOLUME (USD m)	140.26	P/BV 95e/94	2.8 3.3	1-Month Athibor (%)	14.48
%Chg (Prev. Wk)	48.78	Div. Yield (%) 95e/94	4.9 4.4	GRD/US$	236.98
1 Y Wk Avg (USD m)	116.84			A S E Market Capitalisation - 12.1.96 (USD bn)	17.12
				IPOs & Rights Issues (USD m Jan'95-29 Dec'95)	365.03

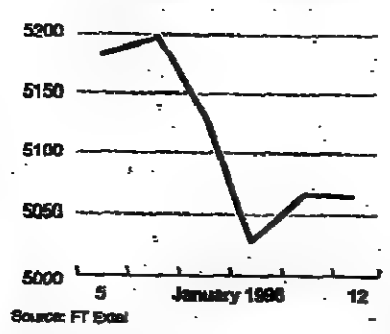
EQUITY MARKETS: This Week

NEW YORK

Lisa Bransten

Further week of volatility in prospect

Dow Jones Industrial Average



Source: FT Extel

Trading on the US equity market is likely to be volatile this week, given the uncertainties looming on the horizon.

For much of last week shares moved in tandem with the bond market, which, in turn, moved up and down based on the budget wrangling in Washington. Today, the equity market will have to find its own direction because the bond market is closed for the Martin Luther King holiday.

The budget talks, which were suspended last Tuesday, are set to resume as early as Wednesday. Investors will be watching to see if Republican leaders in Congress and Democratic President Bill Clinton will be able to strike a deal to balance the federal budget by 2002.

One piece of good news is that the two sides agreed last week to a stop-gap measure to open the government until there is a budget deal, so the flow of economic data – halted in December when the partial government shutdown began – should resume tomorrow.

The week's most important data are expected on Friday, although figures on unemployment are only tentatively scheduled to be released then. Economists forecast that the economy added 100,000 non-farm jobs last month.

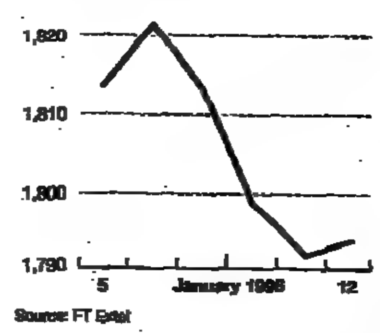
Also on Friday, the Commerce Department is set to publish third-quarter GDP figures. Economists expect the economy to have grown at a rate of 3.5 per cent in last year's third quarter under the new chain-weighted measurement system.

LONDON

Philip Coggan

Traders keep a wary eye on Wall Street

FT-SE-A All-Share Index



Source: FT Extel

Although the UK market had its own problems last week, Wall Street proved to be the dominant influence. The 165-point fall in the Dow Jones Industrial Average over two days of trading knocked sentiment in London and traders will be keeping a wary eye on the US market this week.

On the domestic front, the main event of the week is the meeting between Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, the governor of the Bank of England, on Wednesday. Since the duo cut rates last month, few expect another move so soon.

But the week's economic statistics, which include producer prices today, unemployment and average earnings on Wednesday, and retail sales and inflation on Thursday will be closely scrutinised to see if there is scope for a rate reduction at the February or March meetings.

Both the headline and the underlying rates of inflation (the latter excludes mortgage payments) are expected to have edged lower in December.

The corporate results season is gradually picking up speed, with retailers providing the bulk of the reports so far. A broader picture might be provided by the conglomerate Tomkins, which reports interim figures today, and has a range of businesses from baking to gun-making. Investors are concerned about whether the slowing economy is having an adverse effect on the earnings growth of UK plc.

International offerings

France puts brave face on outlook for further sales

The image selected for the advertising campaign to launch the privatisation of Pechiney, the French aluminium and packaging group, could not have been better chosen. Alongside a man clutching his brief case on a rising escalator is another moving staircase – but one that is clearly going down.

The message that the group's fortunes could go down as well as up was unfortunately all too true – and the symbolism might equally well be applied to the French government's prospects for its entire privatisation programme.

Ignoring advice from some to delay the sale, the state went ahead in mid-November with the privatisation, but was forced to offer a price at the lower end of its indicated range and to reduce the number of shares on offer, cutting revenues received from an original potential peak of FFr4bn to just FFr2.4bn.

Even so, when trading began in December, the shares fell swiftly below the offer price of FFr187, to as low as FFr175 at the end of the first day on the Paris bourse, before rising modestly – but still settling beneath the original price.

"It was definitely a failure. Pechiney was the last nail in the coffin for anyone who thought the government could do deals with ease," said Mr Harry Hampson, head of the equity syndicate desk at J.P. Morgan.

Not surprisingly, French officials tried to put a more positive spin on events. "It was not really all that bad," said one. "The price is coming back up and investors will end up by making a capital gain."

Nevertheless, the experiences of those who bought into recent privatisations have been far from happy, and have done little to boost their confidence in future sell-offs.

Few of the companies sold since 1993 have share prices above their level at the time of issue, and some recent examples from last year, such as Rhône-Poulenc, the pharmaceuticals group, and Usinor Sacilor, the steel group, have suffered sharp falls.

Part of the problem has been the performance of the French stock market over the last few months. While most European bourses suffered in 1995, Paris's performance was exceptionally poor. After a brief rally in July and August, the CAC-40 index dropped sharply, edging back up slightly in November but falling again as the country was gripped by industrial action.

Mr Hampson argues that if the timing is right and the price justified, such experiences "are not going to spoil the turf for institutions". The greater question hangs on the feelings of individual investors who have already been burnt.

One element working in the state's favour for future sales is that the pressure is off. In a point stressed by the new government of prime minister Mr Alain Juppé, an accounting change means privatisation proceeds do not count towards reducing the budget deficit – one of its top priorities.

Even so, Mr Jean Arthuis, minister of finance and economics, has stressed that he is sticking to his target of privatisation revenues of FFr62bn for 1995 and 1996 combined. Since he only raised FFr20bn last year, this suggests some substantial deals to come.

Also, one adviser to the government says the lessons of the last few months are being learned. Despite its flaws, the Pechiney sale opened the process to US investors, who provided needed additional capacity, and the state has abandoned the practice of selling some shares to a core of friendly companies – which may reassure management but is viewed suspiciously by institutions.

He also suggests that France and other countries are likely to pay heed to Italy's recent decision to experiment with some kind of convertible instruments rather than simple equity in future privatisations – providing a degree of guaranteed return and tapping into new pools of investors.

The most likely sell-offs in the next few months include Renault, the motor vehicle group which is already partially privatised; Assurances Générales de France, the insurance group which has seen its sale deferred numerous times; and Caisse Nationale de Prevoyance, the life insurance group. Banque Hervet has also been mentioned.

Meanwhile, there are likely to be some other private sales outside the market which could happen as soon as this year, including Société Marseillaise de Crédit and CIC, the banking group owned by GAN, the insurer.

Other longer-term possibilities include France Télécom, which is almost certain to open its capital, but not during 1997. The unions have expressed their vehement opposition to its privatisation, and experts say there will need to be considerable restructuring before the sell-off takes place.

The same applies to Thomson, the defence contractor, Aérospatiale, Air France and Bull, the computer group. "They are far from ready," said one financial analyst.

The fact is that the government has now sold most of its best businesses. Those that remain among the state-owned enterprises do not look like such attractive prospects.

Crédit Lyonnais, the banking group, for example, is only just embarking on a restructuring after incurring losses of FFr21bn in the past three years. GAN itself is still facing substantial concerns over its property portfolio, and has demanded a capital increase ahead of any sale.

What dictates sell-offs in the coming months will depend on a combination of how successfully the managers of the state-owned enterprises are able to bring about the necessary restructuring, how well the sales are structured, and market prospects. The only element that will be less certain still is investor sentiment.

The French government must hope that over the coming months these factors are all destined for a change; to be on the escalator going up, rather than the one going down.

Andrew Jack

OTHER MARKETS

ZURICH

The market paid the price last week for its sharply higher 1995 performance – up 25 per cent in local currency terms and more than 40 per cent in dollars. Shares encountered profit-taking after Morgan Stanley spoiled the fun by recommending a switch to German equities.

Last Friday's better performance did little to convince many analysts that the market's period of consolidation is over, and they expect index-linked funds to continue to be active sellers.

This week, there is little in the way of corporate news to distract the bears. Roche does not report initial full-year sales figures until January 23, and analysts also expect to have to wait until next week for Nestlé's 1995 sales figures.

A hint of what was in store from the food group came last week from Mr Helmut Maucher, chairman and chief executive. He was quoted as saying that 1995 net profits might be lower than the previous year's result, excluding the SFr306m extraordinary gain from the sale of the Cosmair unit.

In such an uncertain period, analysts are fairly confident that there is little likelihood of a let-up this week in the switching seen from SBC and CS Holding into UBS.

Investors are betting that continuing hostilities between UBS and its largest shareholder, BK Vision, will push its shares higher ahead of its annual shareholders meeting in mid-April.

PARIS

Last week saw a number of companies preparing investors for the worst by announcing that 1995 earnings were likely to be, at best, little changed from the previous year, *writes John Pitt.*

And with high-ranking CAC-40 stocks, such as Lyonnaise des Eaux, warning that 1995 net profits would be below 1994 figures – due to problems at subsidiaries – it is little wonder the market has lost some of its new year sparkle.

The banking sector has also been highlighted as facing a problematic year, and Goldman Sachs warned on Friday that 1996 was probably going to be a disappointment.

Ms Susan Leadem and Mr Neil Crowder at Goldman Sachs said the banking sector underperformed the CAC-40 by 7 per cent.

"Despite some optimism following first-half results, the anticipated earnings rebound during the second half of the year has seemingly not panned out," they said.

MILAN

If a week is a long time in politics, then a year seems just too long in the life of the Italian government.

President Oscar Luigi Scalfaro will open negotiations with party leaders today on the formation of a new government. This follows Prime Minister Mr Lamberto Dini's resignation last Thursday, just six days short of the first anniversary of his technocrat government.

Market watchers are as divided as the politicians over the likely outcome. Some believe the president will be able to engineer a stop-gap government that will at least last long enough to see Italy through its six-month EU presidency, which began this month. Others believe elections will have to be held, three years early.

Either way, the market, which took a fairly relaxed view of the crisis on Friday, is unlikely to see much upside potential until the outlook becomes clearer.

HONG KONG

Rumours of cash-raising exercises are likely to continue to worry the Hong Kong stock market this week, undermining the current rally, *writes Louise Lucas.*

The inflow of foreign funds which has driven stock prices higher over the past month is expected to continue, with US money in particular seeking higher earnings than those forecast in the home market.

Forthcoming property projects along the new airport railway line are also helping sentiment, as companies that clinch the contracts are expected to reap hefty returns. Expectations of further cuts in interest rates are, likewise, favouring property stocks, as well as banks.

However, some profit-taking will persist as long as investors fear that more blue chips will tap the market for cash, following the lead of Sun Hung Kai Properties last week and Citic Pacific the week before.

On Friday, Cheung Kong, the property developer controlled by Mr Li Ka-shing, told the stock exchange it had no immediate plans for a share placement, after rumours that one was imminent had driven the market down.

JOHANNESBURG

Last week's Comex account close-out on Wall Street is unlikely to dampen demand for gold and industrial stocks, but dealers' nerves will be sorely tested by an oscillating bullion price and confusion among local institutions, *writes Mark Ashurst.*

Last week's surging gold price, driven by a spate of buying from US investors, has astonished more cautious local fund managers.

This week's uncertainty will focus on De Beers, one of the strongest performing stocks, as diamond price negotiations resume in Moscow.

Low levels of producer selling in South Africa and Australia could combine with further announcements of forward selling by mines to sustain bullion above $400 per oz, despite mixed expectations of gold quarterlies due this week.

Industrials, bolstered by the spillover of sentiment from gold, are well-positioned to counter any further slides on Wall Street. Equity prices reached fresh peaks last week, and will be further encouraged by news of unusually high foreign exchange reserves.

Compiled by Michael Morgan

WORLD BOND MARKETS: This Week

NEW YORK — Richard Tomkins

US Treasuries ended higher in thin but volatile trading last week as the market continued to worry about the budget deadlock in Washington. The benchmark 30-year long bond ended $\frac{1}{16}$ up at $109\frac{9}{32}$, to yield 6.15 per cent.

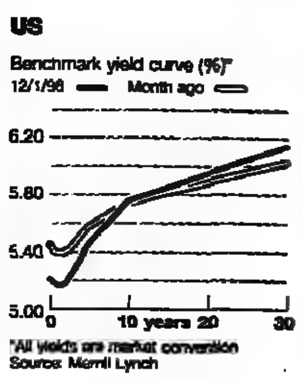
Today the bond market is closed for the Martin Luther King public holiday. For the rest of the week, the dominant issue will be the resumption of budget talks between President Clinton and his Republican adversaries on Wednesday.

The market had become a touch complacent over prospects for a budget resolution, and was unnerved last week when Mr Newt Gingrich, the House Speaker, suggested it might not be settled this side of November's presidential election.

Meanwhile, the lack of economic data due to the government shutdown is becoming increasingly irksome. Figures for November housing starts are due tomorrow, followed by the trade figures on Wednesday.

Friday should bring revised GDP data for last year's third quarter; some home sales data for November are due; and December's employment figures are expected.

However, publication of the data depends partly on the weather. Now that government officials have been told to come back to work, many are hampered by blizzard conditions in Washington.



*All yields are market convention
Source: Merrill Lynch

LONDON — Martin Brice

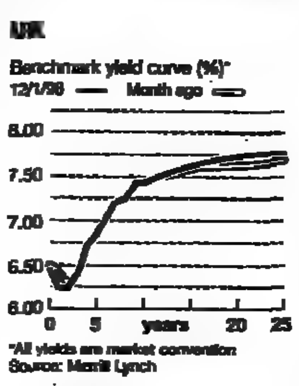
This will be a busy week for UK data. Gilt investors will be studying figures on producer prices, employment, inflation and sales. Mr Eddie George, governor of the Bank of England, and Mr Kenneth Clarke, chancellor of the exchequer, hold their monthly meeting on monetary policy on Wednesday, but no change is interest rates is expected.

Producer price data today is expected to show an easing trend on input price inflation, while figures for December unemployment due on Wednesday are expected to show a smaller reduction than the 20,000 for November.

The public sector borrowing requirement for December is also due on Wednesday, and estimates range from £500m to £1bn, although December's figure may be boosted by interest payments due on stripped gilts, which are paid in June and December.

Thursday sees data on retail sales as well as inflation, which is expected to have increased by between 0.3 and 0.5 per cent in December.

Retail sales are expected to have increased by about 0.8 per cent in December, although Mr Andrew Roberts at UBS said: "Sales data should not be taken negatively. The market has discounted a strong figure, and annual growth is purely down to the National Lottery's anniversary." He expects the market to advance, but not to outperform bunds.



*All yields are market convention
Source: Merrill Lynch

FRANKFURT — Andrew Fisher

The German bond market continued its positive trend last week, with active buying from investment funds. Poor economic data and the recovery in the US market kept prices buoyant.

The new 10-year, 6 per cent German government loan traded at up to 100.70, and the Bund future moved above 100 for the first time in two years.

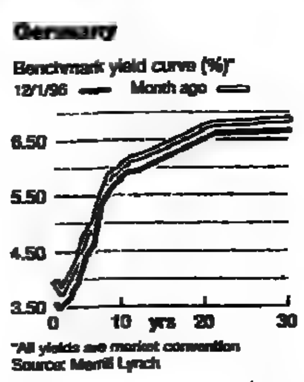
Helping fuel the optimism was the possibility of even lower short-term German rates in response to the weak economy. The securities repurchase (repo) rate eased as expected and is set to fall further from the current 3.73 per cent.

Some regional Bundesbank council members held out the prospect of another cut in the discount and Lombard rates, now at 3 and 5 per cent respectively. Not all economists agree more rate reductions are likely, but they are no longer excluded.

"Perhaps 3 per cent might not be the low point in this discount rate cycle," said Mr Richard Reid of UBS in Frankfurt.

Since fiscal stimulus is constrained by the need to meet the criteria for monetary union, "monetary policy must bear the burden of the policy response", he added.

Mr Julian Jessop of HSBC Markets expects a discount cut to 2.5 per cent by July, saying a weak French franc or worse German data could advance this to March or April.



*All yields are market convention
Source: Merrill Lynch

TOKYO — Emiko Terazono

While the bond market managed to recover marginally last week, thanks to an easing of the dollar and the stock market, pessimism prevails due to expectations of brighter economic prospects.

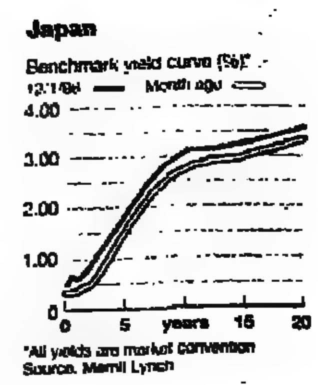
The government is expected to make an improved forecast for the economy in its monthly economic report this week, prompting profit-taking. Investors will also be focused on the currency market, since a weaker yen gives a big boost to corporate profits.

Forecasts of an economic pick-up have also affected the futures market. Government bond futures trading has been stagnant, falling in December by 31 per cent from November on the Tokyo Stock Exchange.

But some bond market analysts believe the negative sentiment has been overdone. The Bank of Japan, for instance, intends to maintain an easy monetary stance.

"As the Euroyen bond futures fell earlier this month, the BoJ injected large amounts into the money market and pushed bank reserves as much as Y700bn over requirement to dampen the rise in rates," points out Mr Marshall Gittler at Merrill Lynch in Tokyo.

And Mr Yasuo Matsushita, governor of the BoJ, has confirmed that the goal of its monetary policy is to place the economy on the path to growth without inflation, and that it will maintain its accommodative monetary stance to support the economy.



*All yields are market convention
Source: Merrill Lynch

International bonds

Mixed feelings over flood of new issues

A record amount of new supply has hit the eurobond market in the first two weeks of the year – but has the quantity of new bonds been matched by quality? Mulling this question at the end of last week, many syndicate managers reviewed the recent crop of deals with mixed feelings.

"Some banks have gone bananas – they have been piling into the market, loading up their balance sheets, and will be owning a lot of the deals we've seen in the last two weeks," said one manager.

Some new issues have seen strong investor demand, but many more have performed poorly in the days following launch, their yield spreads over government benchmarks widening and sales to end-investors flagging.

This has applied particularly to tightly-priced, swapped deals which have surfaced in various sectors – notably US and Canadian dollars – where tight swap spreads have made interest rate arbitrage difficult to achieve.

The more successful deals have been longer-dated D-Mark issues, for which there has been heavy investor demand, as well as attractively priced transactions by issuers who do not need to swap the proceeds.

Interestingly, the league tables for eurobond book-runners have undergone a drastic reshuffle since the end of last year. While league-table analysis is of limited value this early in the year, the numbers highlight an important trend in the industry: the increasingly aggressive efforts of commercial banks to boost their share of the eurobond underwriting business via their investment banking arms.

For example, ABN-Amro Hoare Govett, the investment banking arm of the biggest Dutch commercial bank, ABN-Amro, has lead-managed \$2.94bn of bonds, equivalent to some 20 per cent of its total book-running volume last year. This puts it in second place in the league table for the first two weeks of the year, up from 12th for the whole of 1995.

BZW, Barclays' investment banking subsidiary, has jumped to fifth place, from 20th in 1995. It has underwritten \$2.1bn of bonds so far this year, against \$8.7bn for all of 1995.

Six of the top 10 book-runners for the first two weeks are backed by commercial banks: Deutsche Morgan Grenfell, ranked number one with \$3.2bn of issuance, ABN-Amro, Union Bank of Switzerland, BZW, Dresdner Bank and SBC Warburg.

Meanwhile, the usually high-profile book-runners have been left behind: Merrill Lynch, top underwriter for two years running, has slipped to 17th place, while CS First Boston and Nomura, ranked third and and fourth respectively in 1995, have fallen to 15th and 16th.

This shift has several explanations. For one, the ongoing bull run in the D-Mark bond market has favoured some of the big German houses, notably Deutsche and Dresdner. Still, German book-runners are coming under increasing competition from their non-German counterparts: in 1995, only about 35 per cent of international bonds were led exclusively by German houses.

Another reason why some of the usually top-ranked underwriters have been keeping a low profile is that their main customers – institutional fund managers – have been too, fine-tuning their investment strategies for the new year.

Meanwhile, commercial banks with a bigger base of private investors have executed a large number of retail-targeted transactions. Several tightly-priced deals have been aimed at retail investors who are thought to be less spread-sensitive than institutions.

"In a month or two, there will be more institutional business, which should restore the equilibrium in the league tables," said one banker.

Still, commercial banks remain a force to be reckoned with. Flush with cash after a profitable 1995, they appear keen to increase their market share, even at the risk of underwriting deals that don't sell well.

"Banks which are backed by a big capital base are happier to buy and hold deals than independent investment banks," said a syndicate official at a commercial bank.

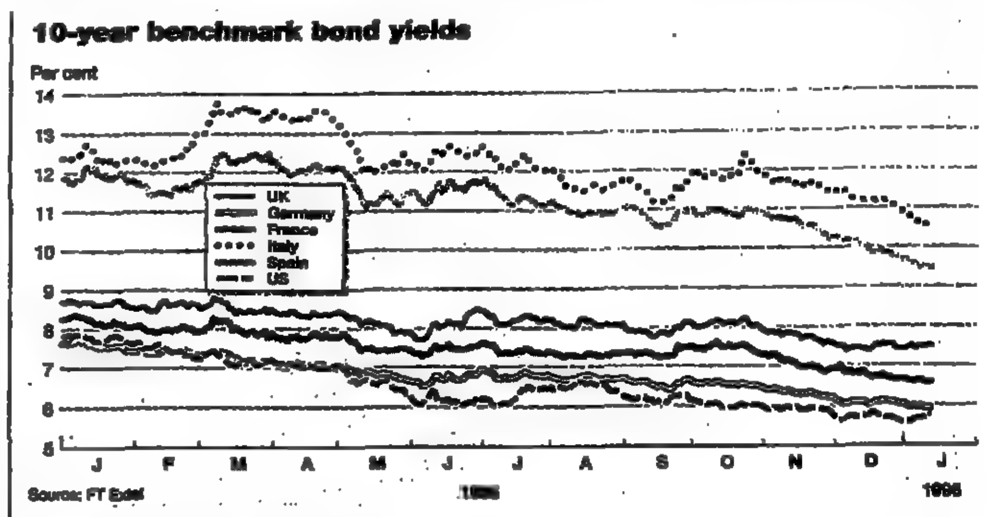
"It helps us tell a good story to borrowers: we have a greater ability to keep a transaction on our books, maintain the yield spread and not feel pressure from our capital resources to cut and run."

Indeed, at a time of rallying markets, keeping unhedged bond positions on the books may be a shrewd move. It may not be as profitable as buying bond futures, but it has the bonus of nurturing relationships with borrowers and investors, as well as raising a bank's profile in the eurobond market. Some even say banks have been so keen to improve relationships with borrowers they actively subsidise deals to get the underwriting mandate.

"In some cases, swap subsidies and the costs of hedging unplaced bonds mean banks are making no money, or are actually losing it," said a dealer, adding: "Banks with large balance sheets can throw money at deals, but that doesn't necessarily reflect their ability to execute and place good transactions."

Conner Middelmann

10-year benchmark bond yields



Source: FT Extel

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.25	0.50	3.00	6.10[1]	9.00	6.50[2]
Overnight	5.38	n.a.	n.a.	4.53	10.12	n.a.
Three month	5.18	0.50	3.53	4.61	10.00	6.44
One year	5.14	0.62	3.40	4.68	9.71	6.25
Five year	5.45	1.78	4.80	5.64	10.20	6.99
Ten year	5.76	3.12	5.91	6.55	10.69	7.43

(1) France-Repo rate; (2) UK-Base rate. Source: Reuters

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	118–31	118–31	–	119–15	118–18	352,579	368,673
Jun	118–24	118–18	–	119–01	118–05	2,173	19,048
Sep	118–12	118–02	–	118–17	117–28	93	5,594

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 14.01.96 Pool purchase price £/MWh	Final Prices for Trading on 17.12.95 Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.00	9.09	9.09
0100	22.27	16.00	16.86
0130	22.27	24.14	25.00
0200	22.27	24.14	25.00
0230	22.27	24.14	25.00
0300	14.88	24.14	25.00
0330	14.50	24.14	25.00
0400	8.66	16.01	16.87
0430	8.64	14.00	14.86
0500	8.61	9.07	9.07
0530	8.89	12.86	13.42
0600	8.89	12.56	13.42
0630	8.89	12.36	13.22
0700	8.89	12.36	13.22
0730	8.89	12.56	13.42
0800	8.86	12.56	13.42
0830	8.89	12.36	13.22
0900	8.89	12.56	13.42
0930	8.91	12.56	13.42
1000	8.89	13.94	14.80
1030	8.89	13.84	14.70
1100	10.02	16.00	16.86
1130	13.54	16.01	16.87
1200	17.71	16.01	16.87
1230	16.25	16.01	16.87
1300	16.25	16.01	16.87
1330	16.25	16.01	16.87
1400	14.79	16.00	16.86
1430	9.00	16.00	16.86
1500	8.94	13.94	14.80
1530	8.94	13.94	14.80
1600	8.94	13.94	14.80
1630	9.00	16.60	17.47
1700	14.79	33.74	34.62
1730	33.76	33.76	34.64
1800	34.20	33.75	34.62
1830	24.17	29.52	30.39
1900	24.17	29.50	30.37
1930	14.79	16.58	17.44
2000	14.79	16.58	17.44
2030	13.88	16.58	17.44
2100	14.29	16.58	17.44
2130	13.84	13.84	14.70
2200	10.02	13.94	14.80
2230	13.62	13.62	14.48
2300	9.99	13.62	14.48
2330	8.92	9.06	9.06
2400	8.91	9.02	9.02

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6788 between 8:30am and 5:15pm Monday to Friday.
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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

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0030	8.94	9.06	9.06
0100	10.02	13.37	14.89
0130	22.52	16.01	17.93
0200	22.92	16.01	17.93
0230	10.02	13.62	15.13
0300	22.92	16.00	17.52
0330	22.92	16.00	17.92
0400	10.02	13.62	15.13
0430	8.92	9.04	9.04
0500	8.92	13.97	14.89
0530	8.92	12.22	13.74
0600	8.90	32.10	33.62
0630	8.99	13.01	14.59
0700	9.03	26.02	27.54
0730	12.85	32.91	34.48
0800	32.84	34.02	35.71
0830	32.85	34.64	36.47
0900	32.86	36.49	36.79
0930	32.92	40.22	43.05
1000	32.96	58.76	59.91
1030	32.96	38.79	39.94
1100	30.39	43.47	48.47
1130	30.39	42.61	45.42
1200	30.40	41.89	44.47
1230	30.40	40.36	42.69
1300	30.38	39.31	41.43
1330	24.54	36.79	38.65
1400	24.52	35.45	38.24
1430	24.50	26.84	28.84
1500	24.50	28.31	30.07
1530	24.54	29.11	29.11
1600	28.02	70.62	70.62
1630	48.87	203.76	239.73
1700	88.69	346.99	397.13
1730	94.39	374.11	421.75
1800	79.03	277.68	314.00
1830	44.60	138.39	158.63
1900	34.40	70.77	79.14
1930	31.28	44.14	47.77
2000	25.37	37.43	39.49
2030	26.28	32.92	34.08
2100	25.27	32.37	33.90
2130	12.90	32.35	33.67
2200	12.92	32.34	33.86
2230	12.50	32.34	33.86
2300	9.01	26.00	27.62
2330	8.95	16.01	17.53
2400	8.88	13.06	14.57

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6788 between 8:30am and 5:15pm Monday to Friday.
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Canadian debt

Quebec tests post-referendum waters

Quebec passed a milestone in debt markets last week. The French-speaking province issued its first public bond since October's referendum in which voters turned down independence from Canada by the slimmest of margins.

The US\$500m Yankee issue confirms that fears about Canada's future and Quebec's fiscal problems have receded in recent months. But the terms of the bond have also underlined the challenges facing Mr Lucien Bouchard, the separatist leader who takes over as premier later this month.

The 10-year issue, led by Merrill Lynch, was priced 78 basis points above equivalent US Treasury bonds. Such a spread would normally apply to a somewhat lower-quality credit than Quebec's A+ rating from Standard & Poor's.

Quebec has been a voracious borrower in recent years, amassing total tax-supported debt of about C\$98bn, excluding unfunded pension liabilities. Its debt, equal to 56 per cent of gross domestic product, is the second highest among Canada's 10 provinces, after impoverished Newfoundland.

Independence would drive it to well over 100 per cent, depending on how much of the federal government's liabilities Quebec assumed.

Quebec's finance department has gained a reputation as a resourceful borrower. Half its funding in recent years has come from outside Canada.

Borrowings have included retail bond offerings in Japan and medium-term note programmes in the US, Canadian and euro-currency markets. A private placement was arranged with a German bank the day after last week's issue.

The province has met its needs for the year to March 31, and has begun to pre-fund requirements for 1996–97.

While most Canadian provinces have near to balanced budgets, Quebec had a deficit of C\$5.7bn in the year to March 1995, and expects one of almost C\$4bn for 1995–96. The government has pledged to balance only the operating budget by 1997–98, before interest payments of C\$1bn a year.

Mr Bouchard has cheered markets by indicating that a new drive for independence will wait until public finances are in order. Last week's bond issue also followed the latest quarterly budget update, showing the government on track for its deficit target this year. Tax revenues have been dented by a weak economy, but this has been offset by lower interest rates and higher transfers than expected from Ottawa.

The signs of fiscal discipline and the referendum result helped narrow the yield on Quebec 10-year domestic bonds to 7.89 per cent – 68 basis points above Government of Canada issues, against some 90 points just before the referendum – but its yields remain among the highest of the provinces'. The spread on bonds issued by neighbouring Ontario is only 30 basis points.

Mr Peter Plaut of Salomon Brothers' sovereign assessment group in New York, expects Quebec's rating to remain stable this year, but says the province is paying for the continued political uncertainty.

One burning question is whether Mr Bouchard will attempt to strengthen his hand with an election later this year. Whether he does or not, he may call another independence referendum in 1997.

With the possibility of more political turmoil ahead, the finance department appears keen to diversify its borrowings still further, reducing its dependence on foreign markets by tapping domestic savings.

New savings bond products to be launched in coming months aim at persuading Quebecois that their province is a great investment, whether it is part of Canada or not.

Bernard Simon

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Student Loan Mktg.Assc.★	1.05bn	Aug.1999	4.50§	97.75	5.317	-	Yamaichi Intl.(Europe)
Glaxo Wellcome	500	Jan.2006	6.125	99.048R	6.256	+48(5⅞%-05)	Lehman/ JP Morgan
Argentina Global Finance‡	400	Feb.2001	(a)	99.824R		-	Deutsche Morgan G'fell
Toronto Dominion(Bd.Cay.Isl)	250	Jul.1998	5.25	99.68R	5.414	+11(l)	UBS
BOC Group	200	Jan.2001	5.875	99.018R	5.894	+37½(5½-00)	JP Morgan Securities
EBRD(f)★	300	Jan.1997	4.50	100.50	3.99	-	Nomura International
Christiania Bank(d)‡	150	Jan.2006	(b1)	99.802R		-	PaineWebber Intl.
Empresas La Moderna(c)	125	Jan.1999	11⅜§	99.84R	11.52	+625(5⅝%-99)	WG Barings/JP Morgan
Federal Home Loan Mtg.Corp.	500	Jan.2006	5.95‡	99.789R	5.981	+25(5⅞%-05)	Goldman/ Salomon
Toyota Motor Credit Corp.	300	Jan.1998	5.125	99.77R	5.249	flat(5¼%-97)	Morgan Stanley/ UBS
ACCMT 2, S.96-A, CA1(m)★	220	Apr.2003	6.00	99.6496R	6.231	+40(6¼%-03)	Salomon Brothers
ACCMT 2, S.96-A, CA2(m)★‡	220	Apr.2003	(e1)	100.00R	-	-	Salomon Brothers
Japan Finance for Muni.Ents.	300	Feb.2006	6.125	99.909R	6.137	+34(5⅞%-05)	JP Morgan Securities
Hewlett Packard Finance Co.	200	Jan.1999	5.25	99.708R	5.358	flat(5½%-98)	Deutsche Morgan G'fell
Mallrea (Grand Cayman)	100	Jan.1999	9.00§	99.902R	9.038	+375(5½%-98)	Salomon Brothers Intl.
General Mtrs.Acceptance Crp.	200	Jan.1999	5.625	99.72R	5.729	+32(5½%-98)	UBS
CCCMT, Series 1, Class A(u)	1bn	Feb.2001	zero	74.81724	5.947	+37(strips)	Goldman Sachs
Federal Home Loan Banks(v)	500	Jan.2001	6.12‡	100.00R	6.120	+70(5½%-00)	Lehman/ Merrill Lynch
GECC(w)	200	Jan.2001	5.50	99.442R	5.637	+10(5½%-00)	UBS
D-MARKS							
United Mexican States(x)	1.5bn	Jan.2003	10.375	99.50R	10.48	+485(7⅛%-03)	CSFB/ Deutsche MG
LB Rheinland-Pfalz Finance	500	Feb.2002	5.375	99.41R	5.483	+25(8¼%-01)	Bqe. Paribas(Deutsch.)
Sistsparkassen Köln	250	Jan.2004	6.00	101.40	5.777	-	ABN Amro/ Trinkaus
Republic of Austria(y)	1.5bn	Feb.2006	6.00	99.035R	6.132	+10(6%-06)	Dresdner Bank
Republic of Finland	750	Feb.2003	5.50	98.83R	5.707	+10(7¼%-03)	Deutsche Morgan G'fell
Deutsche Bau- & Bodenbank‡	300	Jan.2002	(i)	99.92	-	-	Trinkaus & Burkhardt
LW Westerbank‡	100	Jan.2001	(e)	100.00	-	-	Lehman Bros.Bankhaus
Hamburgische Landesbank‡	100	Jan.2001	(p)	100.00	-	-	Lehman Bros.Bankhaus
Kingdom of Sweden	1bn	Feb.2001	5.00	99.835R	5.038	+35(5¼%-00)	CSFB/ Salomon Bros.
Kaerntner Landes-und Hypo.	150	Feb.2003	5.75	102.00	5.399	-	WestLB
Depfa Bank(p)‡	150	Jan.2002	(g)	100.00	-	-	Morgan Stanley Bank
Westphaelische Hypo (b,i)	100	Jan.2001	(f1)	101.85	-	-	DG Bank
Republic of Argentina(g)	500	Feb.2003	10.25	99.50R	10.35	+483(7¼%-02)	CSFB-Effectenbank
Province of Ontario	500	Feb.2001	5.00	99.81R	5.044	+45(5¼%-00)	Goldman Sachs & Co.
YEN							
Republic of Turkey(n)★	10bn	Feb.2006	7.20	100.00	-	-	Yamaichi Intl.(Europe)
Crédit Local de France★	10bn	Feb.2001	2.25	100.00	2.250	-	Mitsubishi Finance Intl.
SWISS FRANCS							
Republic of Austria(f)	750	Feb.2006	4.00	101.75	3.787	-	UBS
LGT Finance(Grand Cayman)‡	100	Feb.2003	(h)	100.50	-	-	SBC Warburg
Nestlé Australia(s)	200	Dec.2000	3.80	101.875	-	-	UBS
Trans-Tokyo Bay Highway	150	Feb.2006	4.00	101.70	3.798	-	Crd.Suisse (BJ/Switz.)
STERLING							
Ford Credit Europe(r)‡	150	Jan.2001	(n1)	99.833R	-	-	BZW
Bullet Finance(j)	718.455	(j)	zero	-	-	-	Nomura International
European Investment Bank(s)	400	Dec.2006	7.625	99.325R	7.58	+15(7¼%-06)	BZW/ HSBC Markets
National Grid Company(p.s)	240	Mar.2005	8.00	99.568R	8.07	+45(7¼%-06)	Goldman/ JP Morgan
Cable & Wireless(s)	200	Aug.2012	8.75	99.135R	8.862	+95(9%-12)	NatWest Capital Mkts.
GUILDERS							
European Investment Bank	2.5bn	Jan.2006	6.00	99.275R	6.099	+12½(6%-06)	ABN Amro Hoare Gvtt.
FRENCH FRANCS							
Philips Electronics	1bn	Feb.2006	7.125	99.10R	7.240	+50(l)	Société Générale
LUXEMBOURG FRANCS							
Commerzbank(s)	3bn	Dec.2004	6.375	102.15	6.06	-	BGL
DSL Bank Luxembourg(k,l)	2bn	May.2001	5.625	102.30	5.10	-	BCEE/ BIL
BGL(Frankfurt Branch)(a)	2bn	Dec.2002	6.00	102.35	5.58	-	BGL
ITALIAN LIRE							
European Investment Bank	500bn	Jan.2001	9.80	101.64	9.176	-	C.Italiano/SBC Warburg
European Investment Bank‡	700bn	Mar.2001	(q)	99.89R		-	(q1)
AUSTRALIAN DOLLARS							
State Bank of New Sth.Wales	100	Feb.2001	7.75§	101.522	7.380	-	BZW
Toronto Dominion Australia	100	Feb.1999	7.25	100.15	7.193	-	Hambros Bank
CANADIAN DOLLARS							
Kingdom of Sweden(s)	200	Dec.2001	6.75	99.70R	6.819	+10(7½%-01)	Daiwa Europe
SOAE(s)	100	Aug.2001	7.00	99.366R	7.157	+40(7½%-01)	ScotiaMcLeod
European Investment Bank(s)	200	Dec.2001	6.625	99.575R	6.720	-5(7½%-01)	UBS
GE Capital Canada	125	Feb.2004	7.125	100.07R	7.113	+10(l)	Paribas Capital Markets
Province of Saskatchewan	125	Feb.2000	6.75	99.95R	6.765	+28(l)	CIBC Wood Gundy
Province of Ontario	1.25bn	Jan.2006	7.50‡	99.529R	7.568	+30(8¾%-05)	CIBC/Merrill/RBC Dom.
Nordic Investment Bank(s)	100	Dec.2001	6.625	99.15R	6.81	flat(7½%-01)	Toronto Dominion Bank
DANISH KRONER							
Commerzbank O'seas Finance	400	Feb.2001	6.25	101.917	5.797	-	Generale Bank
PESETAS							
European Investment Bank	20bn	Feb.2001	8.90	101.22	8.590	-	BSN
SOUTH AFRICAN RAND							
Bank Austria	250	Feb.1997	13.25	100.90	12.24	-	Hambros Bank
EBRD	250	Feb.1997	13.50	101.00	12.39	-	West Merchant Bank
Deutsche Bank Finance	250	Jan.1997	13.50	101.00	12.38	-	Deutsche Morgan G'fell
GECC	250	Jan.1997	13.50	101.00	12.38	-	Deutsche Morgan G'fell
PESETAS							
European Investment Bank(t)	300	Oct.2002	6.50	100.384R	6.586	-	HSBC Markets
FINNISH MARKKA							
Nordic Investment Bank★	100	Feb.2001	6.02	100.00	6.020	-	CIBC Wood Gundy

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. ‡Semi-annual coupon and yield. R: fixed re-offer price. a) 3-mth Libor flat. b) Callable on coupon dates from Jan.01 at par. b1) 3-mth Libor +35bp to Jan.01 and +110bp thereafter. c) Puttable at par if issuer ceases to be majority owner of Cigarrera La Moderna (the guarantor). d) Includes SFr250m increase at 101⅞%. e) Callable on coupon dates from Jan.99 at par. e1) 3-mth Libor +12½bp. f) 6-mth Libor +⅛%. g) 4% quarterly for 1st yr, 3-mth Libor +25bp thereafter. Coupons cannot rise by more than 25bp or fall. h) 2% for 1st 6 mths, 6-mth Libor -12½bp thereafter. i) Over interpolated yield. j) 98 series for zero coupon notes maturing monthly from Feb.98 to Mar.04. To finance the purchase of lead note to be issued by Angel Train Contracts. k) Maintenance of ownership clause (51%) by DSL Bank. l) Long 1st coupon. m) Advanta Credit Card Master Trust. Monthly coupons. Legal maturity: 15/11/05. Average life 7.03 yrs. m1) 1-mth Libor 22bp. m2) Class B: \$28¼m, 15/5/03. 1-mth Libor +35bp, par. n) Includes DM500m increase at new 101.25% issue price. o) Standard restructuring event put option. £20m clean-up call. p) Oeffentliche Pfandbrief. q) 3-mth Libor -30bp. q1) Joint bookrunners: BCV BNL/ Cariplo/ San Paolo/ JP Morgan. r) Callable on 25/1/99 at par. r1) 4½% to 25/1/98 and 6¾% thereafter. s) Short 1st coupon. t) Quarterly coupons. u) Citibank Credit Card Master Trust. Legal maturity: 7/2/03. Average life: 5 yrs. u1) Class B: \$64m, zero coupon, 7/2/01. Issue price: 74.28531, strips +52bp. v) Callable from 24/1/97 at par. w) \$300m launched 2/1/96 was increased to \$500m. x) Includes DM500m increase at 99.50R. Bunds +495bp. y) DM500m launched 4/1/96 was increased to DM1bn. Note: Yields are calculated on ISMA basis.

THE DAVID THOMAS PRIZE

In a jungle of vested interests

Nicola Baird, winner of the 1995 David Thomas Prize, looks at logging the rainforests of Solomon Islands

"Did you know this used to be a beautiful garden, full of big trees?" said my Solomon Islands taxi driver, pointing out the deputy prime minister's residence. The view over Iron Bottom Sound away to the islands of central province is stunning, but the garden itself is now an ugly cement yard.

Mr Solomon Mamaloni, the prime minister, has cut down all the trees at his new residence too, adds the driver. "Perhaps he just doesn't like trees."

Ecologists would agree with my driver. After 17 years of independence – it was a British protectorate – the small Pacific nation of 350,000 people now relies on logging revenue for more than half its foreign exchange earnings. The problem is that at the present rate, there are only 10 years left of commercial timber, according to independent estimates. "Rather than understanding the problem it has made, the government has gone out of its way to make things worse," says Dr John Roughan, adviser to Solomon Islands Development Trust, the country's largest voluntary organisation.

The country's Central Bank is also critical. Its latest annual report warns: "The high dependence on the logging sector, not only for government revenues, but also as the main engine of growth in external reserves, represents a major weakness of the economy."

The government says it wants to develop local processing of the wood, providing income for locals. Last year Mr Mamaloni was given a chest of drawers by Mr Ray Jones, then the British high commissioner, made from calophyllum wood, a mahogany substitute, which had been cut from a community project in the Solomons and then crafted in the UK. Accepting the gift, Mr Mamaloni reiterated the government's aim of banning the export of logs by 1999.

That course was outlined in a policy paper published by the government in December 1994, which replaced round-table efforts sponsored by UK and Australian government aid agencies to implement a sustainable forest policy. However, the incentive for the government to promote sustainable harvesting is limited as its plantations were sold to private enterprises late last year.

Just weeks before the plantations were sold, the government cancelled a special plantation and inventory valuation financed by the European Union. Without such data, it is impossible for outsiders to tell whether the plantations were sold at a fair price. Another EU-backed research project to assess the potential for local processing of the wood was also cancelled, making a mockery of the government's stated aim to "improve efficiency of forest industry production, strengthen value-added processing facilities and commodities, and maximise market value of logs and sawn timber".

"Solomon Islands can successfully develop its forestry resources on a sustainable level," the policy paper says, "because, after all, logs and timber are not the only commodities of commercial value which our people can rely on. The most valuable commodities of the forests, as far as Solomon Islanders are concerned, are edible herbs, smaller-sized trees and other bush materials to build shelters for their families. Unless this pattern of life is extinct through heavy modernisation, the forests in this country are as safe as they have always been since time began."

But without the information that would have been provided by the cancelled studies and a proper inventory of the resources, meaningful planning is impossible, and time is running out. The most recent inventory was completed in 1992. The Australian-backed research put the sustainable rate of harvest at 325,000 cu m per annum. However, as logging has continued apace, the sustainable yield is now reckoned to be just 275,000 cu m. The moratorium on logging licences in 1994 introduced by the National Coalition party government which has since collapsed, has not been upheld. At the start of this year the official Timber Control Unit, the only organisation monitoring the country's timber harvest, was closed.

Since the new government has issued logging licences allowing an annual cut of 4m cu m, the country could theoretically be logged out in three years. The logging companies are not equipped to log at this level, but even at the present estimated cut of 700,000 cu m, the resource cannot last more than 10 years.

Most islanders, who live in isolated rural villages, depend on the rainforest for housing materials, bush medicines and food. On Pavuvu Island there is strong opposition to new logging activities.

"The logging on Pavuvu is out of control and destructive," warns Mr Lawrence Makili of Greenpeace, the environmental pressure group. "Logging is happening very fast, with little planning and no monitoring."

In neighbouring Western Province, Solomon Islands' top tourist spot, Goodwill, an Indonesian company, wants to start logging operations on Tetepare, the largest uninhabited island in the Pacific.

Opponents to logging in Tetepare suggest alternatives such as an eco-tourist resort, but they are fighting against the odds, as Western Province leads log exports. In the first six months of 1995, it provided 60 per cent of total trees cut.

Some voluntary organisations, such as Solomon Islands Development Trust, are using awareness campaigns to try and halt the wholesale destruction of the rainforest.

Mr Francis Iro, field director of the development trust's theatre group, has been putting the anti-logging message across through drama. "It was the first time these people had been shown alternatives," he says after a recent tour of Guadalcanal Province. "They'd had logging but they'd been given no environmental awareness. Now food like kumara [sweet potato] won't grow well. There's erosion and the top soil is mixed with oil. Some of these villagers are hungry."

I used the David Thomas Memorial Prize to finance a trip for three Solomon Islands community foresters to Papua New Guinea to visit foresters working there with the Pacific Heritage Foundation. It was the first chance for foresters from the two countries to discuss ways of encouraging villagers to take an active role in sustainable timber management.

Both Papua New Guinea and the Solomon Islands have dismal records at using their forest resources. Both are among the last countries in the world to allow the export of entire logs. Harvests in both countries are estimated to be more than twice the sustainable rate.

But sustainable community logging has positive benefits. Although the political focus is on industrial logging, both nations have voluntary organisations helping village communities to use their land in a sustainable way.

At Arabam, a village in Papua New Guinea, Mr George Metpes, one of the villagers running a Baining community forest project, enthusiastically told us about the changes a forest project has brought to his community. "We had one store before, now we have four. Everyone gets a chance to work so the benefits are distributed throughout the village."

Other non-governmental groups in Solomon Islands, such as Soltrust, Iumi Tugetha Holdings and Solomon Western Islands Fair Trade, are promoting alternatives to large-scale logging through community saw-milling initiatives. But they are hampered by lack of government support and the physical difficulties of working in a country where few people can read and write, 90 per cent of the population live in isolated villages and where the local word for "development" means the same as "money".

The evidence suggests the government suffers from a similar confusion. Mr Sosimo Kuki, director of Komunibuli Training Centre, a charitable organisation which runs timber management courses for villagers, says the government's policies are short-sighted.

"The government seems to listen to the loggers but dismisses the opportunities presented by small-scale saw-milling," he says. "The logging rate has to drop to a sustainable rate and the best way to do that is to support the alternatives.

"What the government is doing affects the future of the whole country. If something doesn't happen soon, the Ministry of Forestry, Environment and Conservation might as well be called the Ministry of Destruction."

With thanks to David Thomas Trustees for providing funding for this trip – including a week-long visit for three Solomon Islanders to visit community forest projects in Papua New Guinea; to British Airways for flights to Australia; and to Pacific Heritage Foundation for sponsoring canoe journeys around East New Britain Province.

The David Thomas Prize was set up in memory of David Thomas, a Financial Times journalist killed on assignment in Kuwait in 1991.

Nicola Baird runs the Forest Management Foundation, a registered charity promoting the development of sustainable community forest projects worldwide.

The effects of commercial logging cut a swathe through the tropical rainforests of Solomon Islands

Barking up the right tree

One of Papua New Guinea's most attractive towns, Rabaul, disappeared in September 1994, buried under the debris of two volcanoes which erupted near the coastal city, writes Nicola Baird. More than a year later only a few plants have bloomed.

Not far from the wrecked town, Mr Max Henderson runs the Pacific Heritage Foundation, a small voluntary organisation dedicated to developing a sustainable timber trade in Papua New Guinea.

Last year more than 3m cu m of timber was cut by loggers – at least three times more than the sustainable rate, according to independent estimates.

The Pacific Heritage Foundation is involved in schemes such as Bainings Community Forest Project in the East New Britain region, which involves local people in cutting, processing, and regenerating the forest.

To prove that the timber produced by the project is well-managed and harvested on a sustainable basis, Mr Henderson sought independent certification for the community groups. In January 1993 they passed a rigorous test by SGS Forestry, part of the Swiss control group Société Générale de Surveillance, making the Bainings Community Forest project in East New Britain one of the first in the world to win this certification.

Under Pacific Heritage, loans are offered for portable saw-mills and eco-timber projects are backed. Selected trees are only cut after an inventory and careful planning, and once an area has been cut it is left to regenerate.

In contrast, the areas logged by heavy machinery turn to mud and then become smothered with kunai grass and vines.

Mr Henderson says sustainable logging can be achieved. "The solution is to make more use of each tree – to manufacture components, chairs, outdoor furniture, mouldings and so on so that the community can get better value for their timber."

Meanwhile the eruptions have created heavy demand for timber as reconstruction work gets under way. However, as Mr Henderson points out, at least some of the timber is being cut in a sustainable way.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jan 12 / Sch)

BELGIUM/LUXEMBOURG (Jan 12 / Frs.)

CZECH REP (Jan 12 / Koruna)

DENMARK (Jan 12 / Kr)

FINLAND (Jan 12 / Mks)

FRANCE (Jan 12 / Frs.)

GERMANY (Jan 12 / Dm.)

GREECE (Jan 12 / Drachma)

ITALY (Jan 12 / Lire)

NETHERLANDS (Jan 12 / Fls.)

NORWAY (Jan 12 / Kroner)

POLAND (Jan 12 / Zloty)

PORTUGAL (Jan 12 / Escudo)

SPAIN (Jan 12 / Pta.)

SWEDEN (Jan 12 / Kronor)

SWITZERLAND (Jan 12 / Frs.)

TURKEY (Jan 12 / TL Lira)

PACIFIC

JAPAN (Jan 12 / Yen)

HONG KONG (Jan 12 / H.K.$)

INDONESIA (Jan 12 / Rupiah)

MALAYSIA (Jan 12 / MYR)

NEW ZEALAND (Jan 12 / NZ $)

SINGAPORE (Jan 12 / S$)

AUSTRALIA (Jan 12 / Aust$)

SOUTH KOREA (Jan 12 / Won)

TAIWAN (Jan 12 / TW $)

THAILAND (Jan 12 / Baht)

AFRICA

SOUTH AFRICA (Jan 12 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jan 12 / Can $)
4 pm close

MONTREAL (Jan 12 / Can $)
4 pm close

INDICES

	Jan 12	Jan 11	Jan 10	1995/96 High		1995/96 Low	
Argentina							
General(29/12/77)	17322.20	17088.11	17043.40	17888.20	3/1/96	[illegible]	9/3/95
Australia							
All Ordinaries(1/1/80)	2238.4	2246.7	2238.2	2274.90	8/1/96	1823.30	8/2/95
All Mining(1/1/80)	1019.0	1032.6	1014.3	1041.80	8/1/96	795.30	8/2/95
Austria							
Credit Aktien(30/12/84)	367.22	363.86	366.37	386.42	2/1/95	328.50	27/10/95
Traded Index(2/1/91)	1031.08	1022.77	1019.57	1058.31	2/1/95	882.15	23/10/95
Belgium							
BEL20(1/1/91)	1613.41	1608.50	1614.77	1624.87	9/1/96	1271.63	9/3/95
Brazil							
Bovespa(29/12/83)	48466.0	47487.0	48222.0	48812.80	19/9/95	21382.80	9/3/95
Canada							
Metals Mnls ♦(1975)	4790.19	4797.90	4801.52	[illegible]	23/11/95	3808.83	1/3/95
Composite ♦(1975)	4753.01	4771.21	4781.05	4865.36	9/1/96	3991.41	30/1/95
Portfolio§§(4/1/83)	2327.39	2334.31	2340.08	2383.93	9/1/96	1883.38	30/1/95
Chile							
IGPA Gen(31/12/80)	5780.39	5750.46	5752.03	6083.10	11/7/95	4678.80	9/3/95
Denmark							
CopenhagenSE(3/1/83)	379.26	376.16	373.47	379.28	12/1/96	330.01	29/3/95
Finland							
HEX General(28/12/90)	1689.67	1675.01	1661.67	2332.22	14/9/95	1559.39	29/3/95
France							
SBF 250(31/12/90)	1262.73	1256.44	1262.13	1322.30	12/5/95	1154.41	13/3/95
CAC 40(31/12/87)	1907.59	1897.95	1910.11	2017.27	12/5/95	1721.14	23/10/95
Germany							
FAZ Aktien(31/12/58)	845.90	836.62	842.53	845.76	19/9/95	708.82	30/3/95
Commerzbank(1/12/53)	2448.3	2421.0	2438.6	2448.30	12/1/96	2018.70	30/3/95
DAX(30/12/87)	2356.45	2329.51	2338.19	2359.46	12/1/96	1910.89	28/3/95
Greece							
Athens SE(31/12/80)	915.46	921.77	925.14	932.58	4/8/95	787.15	16/3/95
Hong Kong							
Hang Seng(31/7/64)	10540.01	10429.62	10304.63	10573.80	4/1/96	6967.93	23/1/95
India							
BSE Sens(1979)	3010.21	3021.99	2987.33	3832.06	2/1/95	2822.16	29/11/95
Indonesia							
Jakarta Comp.(10/8/82)	550.39	533.78	528.64	550.99	12/1/96	414.21	18/4/95
Ireland							
ISEQ Overall(4/1/88)	2286.55	2365.81	2280.24	2286.91	9/1/96	1813.59	23/1/95
Italy							
Banca Comm Ital(1972)	584.69	586.05	587.42	680.54	10/2/95	547.79	5/12/95
MIB General(2/1/96)	992.0	994.0	996.0	1019.00	3/1/96	992.00	12/1/96
Japan							
Nikkei 225(16/5/49)	20287.42	20377.32	20812.32	20680.00	8/1/96	14485.40	3/7/95
Nikkei 300(1/10/82)	298.07	298.72	303.37	307.98	5/1/96	222.28	13/6/95
Topix(4/1/68)	1582.21	1598.98	1617.45	1632.63	5/1/96	1193.20	13/6/95
2nd Section(4/1/68)	2081.23	2072.50	2077.29	2130.80	4/1/96	1441.30	13/6/95
Malaysia							
KLSE Comp.(4/4/86)	1081.77	1046.79	1052.77	[illegible]	5/1/96	840.87	24/1/95
Mexico							
IPC(Nov 1978)	(c)	2887.27	2874.25	2901.85	5/1/96	1447.82	27/2/95
Netherland							
CBS TRtn Gen(End 83)	347.4	343.1	346.9	351.00	8/1/96	422.90	23/3/95
CBS All Shr(End 83)	331.5	[illegible]	331.2	333.80	8/1/96	286.20	22/3/95
New Zealand							
Cap. 40(1/7/86)	2112.73	2129.90	2131.35	[illegible]	20/10/95	1888.40	3/1/95
Norway							
Oslo SE(Ind(2/1/83)	1294.52	1295.80	1288.66	1298.20	8/1/96	1026.80	10/3/95
Philippines							
Manila Comp(2/1/85)	2747.26	2864.73	2858.40	2988.12	18/7/95	2026.40	28/11/95
Portugal							
BTA(1977)	2580.1	2538.3	2542.9	2811.60	9/1/95	2412.60	22/11/95
Singapore							
SES All-S'pore(2/4/75)	582.29	574.88	574.25	582.29	12/1/96	472.90	23/1/95
South Africa							
JSE Gold(28/9/78)	1628.3♥	1600.4	1584.2	2023.00	2/1/95	1250.29	30/10/95
JSE Ind.(28/9/78)	8443.4♥	8314.8	8317.3	[illegible]	12/1/96	6222.80	31/1/95
South Korea							
KoreaCompEx**(4/1/80)	878.64	883.96	885.77	1027.37	2/1/95	847.09	27/5/95
Spain							
Madrid SE(30/12/85)	326.06	323.75	324.52	328.80	4/1/96	284.06	23/3/95
Sweden							
AffarsvardnGen(1/2/37)	1722.9	1714.7	1706.0	1872.10	19/9/95	1438.00	28/3/95
Switzerland							
Swiss Bk Ind(31/12/58)	1538.88	1534.94	1548.63	1578.80	4/1/96	1174.85	13/3/95
SBC General(1/4/87)	1141.72	1137.10	1146.29	1165.30	4/1/96	878.50	13/3/95
Taiwan							
Weighted Pr.**(30/6/66)	4962.80	4942.62	4862.35	7051.49	5/1/95	4503.37	14/8/95
Thailand							
Bangkok SET(30/4/75)	1375.91	1369.66	1362.34	1472.04	10/7/95	1135.60	16/3/95
Turkey							
Istanbul Comp.(Jan 1986)	46318.4	44501.1	43497.9	54620.80	21/4/95	24844.30	23/1/95
WORLD							
MS Capital Int.(1/1/70)	727.6	729.0	728.9	743.60	5/1/96	595.21	23/1/95
CROSS-BORDER							
Eurotrack 100(26/10/90)	1514.92	1504.40	1510.99	1636.57	4/1/95	1282.41	13/3/95
Euro Top-100(26/6/90)	1348.21	1333.01	1340.49	1370.56	3/1/96	1117.34	9/3/95
JCapeDrgns(31/12/88)	(u)	353.64	351.32	359.57	4/1/96	282.07	23/1/95
ING Brngs Emrg(7/1/92)	155.75	153.81	154.08	158.07	2/1/95	117.35	10/3/95

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
Jan	1921.0	1912.0	+7.0	1923.0	1911.0	14,006	33,140
Feb	1927.5	1919.0	+6.5	1927.5	1919.5	49	1,051
DAX							
Mar	2369.0	2385.5	+19.5	2375.0	2360.5	18,660	-
Jun	2382.0	2379.0	+27.5	2388.0	2378.5	1,004	-
OMX							
Jan	1345.00	1332.50	-2.50	1349.00	1332.50	5,147	18,873
Feb	1353.50	1341.50	+1.25	1353.50	1341.50	1,194	2,748
SOFFEX							
Jan	3305.0	3287.5	+11.5	3307.0	3283.1	6,582	14,511
Feb	3302.0	3294.0	+6.0	3309.0	3297.0	534	3,271

** Sat Jan 6 - Taiwan Weighted Price 4847.21; Korea Comp Ex 859.38. Base values of all Indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7, JSE 28 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index Jan 12 - 2363.89 +22.81.

US INDICES

Dow Jones	Jan 12	Jan 11	Jan 10	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Industrials	5061.12	5065.10	5032.94	5216.47 (13/12/95)	3832.08 (30/1/95)	5216.47 (13/12/95)	41.22 (2/7/32)
Home Bonds	105.21	105.21	105.58	105.58 (10/1/96)	93.83 (3/1/95)	105.77 (13/10/93)	54.99 (1/10/81)
Transport	1905.55	1911.28	1896.46	2062.11 (5/12/95)	1473.10 (3/1/95)	2062.11 (5/12/95)	12.32 (8/7/32)
Utilities	228.17	228.66	228.88	238.82 (9/1/96)	183.03 (3/1/95)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5114.23 (5098.78) Low 5000.87 (5002.96) (Theoretical)
Day's high 5078.02 (5095.74) Low 5025.59 (5021.30) (Actual)

Standard and Poors	Jan 12	Jan 11	Jan 10	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Composite‡	601.81	602.69	598.48	621.69 (13/12/95)	459.11 (3/1/95)	621.69 (13/12/95)	4.40 (1/6/32)
Industrials‡	705.13	707.28	702.20	731.56 (13/12/95)	546.28 (3/1/95)	731.56 (13/12/95)	3.62 (21/6/32)
Financial	58.72	59.16	58.67	63.86 (8/12/95)	41.64 (3/1/95)	63.86 (8/12/95)	8.64 (1/10/74)
NYSE Comp.	322.95	322.28	321.41	332.63 (3/1/96)	250.73 (3/1/95)	332.63 (3/1/96)	4.46 (28/4/42)
Amex Mkt Val	534.84	537.18	535.35	553.58 (12/9/95)	433.12 (6/1/95)	553.58 (12/9/95)	29.31 (9/12/72)
NASDAQ Comp	1008.23	1011.18	998.21	1069.79 (4/12/95)	743.58 (3/1/95)	1069.79 (4/12/95)	54.87 (31/10/72)

■ RATIOS

	Jan 5	Dec 29	Dec 22	Year ago
Dow Jones Ind. Div. Yield	2.28	2.30	2.31	2.76
	Jan 10	Jan 3	Dec 27	Year ago
S & P Ind. Div. yield	2.02	1.95	1.98	2.45
S & P Ind. P/E ratio	18.30	18.95	18.75	18.71

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Micron Tech	10,555,900	32¾	-3
Motorola	8,758,700	49⅝	-⅝
Telefonos	6,701,200	32⅛	-1⅞
Newmont	5,946,100	51⅛	-2
K Mart	4,850,400	7	-⅛
Citicorp	3,200,800	63	+⅛
Wal Mart	3,059,200	22⅝	-⅛
Loral	2,720,300	43⅝	-⅛
IBM	2,664,300	86⅝	[illegible]
Amer T & T	2,617,100	65⅝	[illegible]

■ TRADING ACTIVITY

Volume (million)	Jan 12	Jan 11	Jan 10
New York SE	379.292	410.047	500.936
Amex	17.929	18.077	24.287
NASDAQ	(u)	525.272	615.341
NYSE			
Issues Traded	3,089	3,094	3,087
Rises	1,104	1,436	320
Falls	1,187	819	1,973
Unchanged	778	793	598
New Highs	73	47	57
New Lows	29	24	38

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Mar	605.60	604.95	-0.70	607.75	599.50	94,266	198,328
Jun	612.30	610.40	-0.75	612.80	605.50	635	6,440
■ Nikkei 225							
Mar	20570.0	20290.0	-190.0	20600.0	20250.0	22,024	141,072
Jun	20550.0	20250.0	-240.0	20550.0	20250.0	87	18,589

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ♦ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Friday, January 12, 1996

	Stocks Traded	Closing Prices	Change on day
Kurabo Inds	13.3m	485	+5
Nippon Steel Corp	10.8m	380	-4
Koa Oil Co	9.9m	1190	+110
JDC Corp	8.5m	585	-5
Takara Shuzo	8.3m	1130	+60
Toshiba Corp	7.2m	823	-14
Hitachi	6.6m	1010	-30
Hyogo Bank	6.2m	1	
Gunze	4.3m	685	+30
Sumitomo Mtl Min	4.1m	1000	-40

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995/96, except Toronto & Montreal (daily). ¶ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

STERLING FUTURES (IMM) £62,500 per £

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jan	Feb	Mar	PUTS Jan	Feb	Mar
1,520	2.54	2.77	3.17	0.01	0.27	0.87
1,530	1.59	2.08	2.51	0.01	0.60	1.02
1,540	0.50	1.42	1.88	0.01	0.98	1.20
1,550	-	0.87	1.47	0.28	1.38	1.62
1,560	-	0.51	1.07	1.28	2.01	2.13
1,570	-	0.25	0.75	2.28	2.70	2.81

Previous day's vol., Calls 5,190 Puts 7,288 . Prev. day's open int., Calls 153,870 Puts 200,184

BANK RETURN

BANKING DEPARTMENT	Wednesday January 10, 1996	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,281,324,984	+388,613,301
Bankers deposits	1,729,046,389	-155,628,879
Reserve and other accounts	3,107,377,818	-999,445,997
	6,186,302,188	-766,461,675
Assets		
Government securities	1,101,592,681	+20,945,000
Advances and other accounts	4,175,055,864	-1,187,863,393
Premises, equipment and other secs	908,452,211	+388,168,225
Notes	4,083,523	-7,045,673
Coin	217,989	+56,168
	6,186,302,188	-766,461,675
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	19,785,916,477	-1,012,954,327
Notes in Banking Department	4,083,523	-7,045,673
	19,790,000,000	-1,020,000,000
Assets		
Other Government securities	11,192,803,142	-1,687,688,711
Other Securities	8,597,196,858	+667,688,711
	19,790,000,000	-1,020,000,000

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
"Shorts" (Lives up to Five Years)							
15¼pc 1996‡‡		102$\frac{15}{32}$	-.1	1,150	Nv3 My3	27.9	1309
Exch 13¼pc 1996‡‡		102$\frac{7}{8}$	-1	800	Nv15 My15	9.10	1288
Conversion 10pc 1996		103$\frac{1}{32}$	—	3,409	My15 Nv15	8.10	1240
Treas 13¼pc 1997‡‡		108$\frac{13}{32}$xd	-1	1,290	Jy22 Ja22	18.12	1302
Exch 10½pc 1997		104½	-.1	3,700	Au21 Fe21	17.7	1253
Treas Cnv 7pc 1997‡‡		101⅛	0.1	1,988	Fe6 Au6	30.6	4401
Treas 8¾pc 1997‡‡		109$\frac{3}{32}$	—	5,550	Mr1 Se1	26.7	1341
Exch 15pc 1997		114¾	-.1	830	Au27 Oc27	20.9	1289

[illegible]

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Treas 8½pc 2005‡‡		107¼	0.5	8,900	[illegible]		
7½pc 2006‡‡		100$\frac{1}{8}$	0.3	6,000	[illegible]		
7¾pc 2006‡‡		101⅛	0.2	3,800	[illegible]		
8pc 2002-6‡‡		102$\frac{15}{16}$	0.2	2,000	[illegible]		
Treas 11¾pc 2003-7		123$\frac{3}{4}$xd	0.1	3,150	[illegible]		
Treas 8½pc 2007‡‡		107$\frac{7}{16}$xd	0.3	7,397	[illegible]		
13½pc 2004-8		136⅞	0.1	1,250	[illegible]		

[illegible]

STOCK INDICES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

BASE LENDING RATES

[illegible]

FT GOLD MINES INDEX

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

‡ Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

[illegible]

GT BIOTECHNOLOGY & HEALTH FUND
(in liquidation)
société anonyme d'investissement à capital fixe
Registered office: 2, boulevard Royal, Luxembourg
R.C. Luxembourg B 24 840

Notice of Extraordinary General Meeting

The shareholders of GT BIOTECHNOLOGY & HEALTH FUND (in liquidation) (the "Fund") are hereby convened to an Extraordinary General Meeting to be held at 69, route d'Esch, Luxembourg on 24 January, 1996 at 11.00 a.m. with the following agenda:

1. To hear the report of the liquidator.
2. To appoint an auditor to the liquidation in accordance with article 151 of the Luxembourg law of 10th August 1915 on commercial companies.

Resolutions will be passed with the consent of a simple majority of the shares represented at the meeting.

Proxy cards are available at the registered office of the Fund.

Bearer shareholders are requested to deposit their shares at Banque Internationale à Luxembourg at least 3 clear days prior to the date of the meeting.

Luxembourg, 6th January, 1996.

GT BIOTECHNOLOGY & HEALTH FUND (in liquidation)

Citicorp Banking Corporation
(Incorporated in the State of Delaware)
Unconditionally guaranteed on a subordinated basis by
CITICORP

GUARANTEED FLOATING RATE SUBORDINATED CAPITAL NOTES DUE JANUARY 30, 1997

NOTICE IS HEREBY GIVEN THAT Citicorp (as successor in interest to Citicorp Person-to-Person, Inc. and Citicorp Banking Corporation) has elected to redeem on February 16, 1996 (the "Redemption Date") all of the U.S.$250,000,000 Guaranteed Floating Rate Subordinated Capital Notes Due January 30, 1997 issued by Citicorp Person-to-Person, Inc. on January 30, 1985 and assumed by Citicorp Banking Corporation on May 1, 1985 and further assumed by Citicorp on November 28, 1994 (the "Notes"), at a redemption price, which will become due and payable on the Redemption Date, equal to 100% of the principal amount of the Notes to be redeemed plus interest accrued to, but not including, the Redemption Date. On and after the Redemption Date, interest on the Notes will cease to accrue.

The Notes are to be redeemed at the main offices of Citibank, N.A. in London, Paris, Frankfurt am Main, Amsterdam and Brussels, at the main office of Citicorp Bank (Luxembourg) S.A. in Luxembourg, at the main office of Citicorp Bank (Switzerland) in Zurich and at the main office of Christiania Bank og Kreditkasse in Oslo. The Notes, together with all interest coupons maturing subsequent to the Redemption Date attached thereto, should be presented and surrendered at the offices set forth above on the Redemption Date.

January 15, 1996, London
By: Citibank, N.A. (Issuer Services), Paying Agent CITIBANK

LEGAL NOTICES

No. 006539 of 1995

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
UPTON & SOUTHERN HOLDINGS PLC
AND IN THE MATTER OF THE
COMPANIES ACT 1985

Notice is hereby given that the Order of the High Court of Justice (Chancery Division) dated 15th November 1995 confirming the reduction of the capital of the above named Company from £10,126,519.94½p to £2,472,613 and the cancellation of the share premium account of the above named Company was registered by the Registrar of Companies on 22nd November 1995.

Dated this 11th day of January 1995
Nabarro Nathanson
50 Stratton Street
London W1X 6NX
Tel: 0171 493 9933
Ref: FA/SXN/U147/33

INTERNATIONALE DE DEVELOPPEMENT FINANCIER S.A.
1A, rue Thomas Edison L-1445
Luxembourg-Strassen
R.C. Luxembourg B 44.329

Capital increase

The Company's share capital has been increased to reach USD 30,000,000,- represented by three hundred thousand shares with a nominal value of USD 100,- fully paid.
The new shares will be listed on the Luxembourg Stock Exchange.

The Listing Agent
CREDIT LYONNAIS LUXEMBOURG S.A.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Allied Domecq		534xd	-3.1	31.6	0.9	Feb Jul	4.12	1880
Bulmer (HP)		508xd	1.5	12.3	2.6	Feb Sep	8.1	2005
Burn St Dist		130	—	5.0	0.9	May Nov	30.10	1578
Grand Met		444xd	-1.0	14.9	1.9	Apr Oct	28.12	2759
Guinness		483½	-.3	14.1	2.3	Nov May	9.10	2781
Highland		328	-4.1	7.9	2.7	Jan Jun	4.12	2880
Kirin Y		721¼	-6.8	Q20%	4.2	Mar Sep	–	1118
Macallan-Glen		189	-2.6	1.32	3.4	Nov May	2.10	3254
Macdon Martin A		625xd	—	10.9	3.3	Jan Jul	11.12	3257
Matthew Clark		686	0.4	22.0	0.2	Apr Oct	31.7	2153
Merrydown		107xd	-2.7	2.0	–	Jan Oct	11.12	3382
Seagram S		[illegible]	-2.2	Q60c	–	MrJnSeDe	3.95	–

BANKS, MERCHANT

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Prf		50½	—	8%	–	Jun Dec	11.94	1757
Cater Allen		463	1.3	30.0	2.0	Jan Aug	11.12	2081
Close Bros		335	2.8	8.7	2.5	Apr Nov	9.10	2169
Gerrard & Nat		484	-.6	22.5	1.3	Jul Dec	13.11	2586
Hambros		204	-4.2	7.5	–	Aug Dec	27.11	2812
7½pc Cv Pf		102	—	7½%	–	Oct Apr	4.9	4382
Joseph (L)		453	—	18.75	1.6	Sep Jan	11.12	3060
King & Shaxson		160xd	-.7	9.0	1.4	Jan Jul	22.12	3088
Rea Brothers		85	1.8	1.0	2.4	May Sep	14.8	3785
Schroders		1353	-.9	14.17	5.1	May Oct	18.9	3939
N/V		1080	-1.6	14.17	5.1	May Oct	18.9	3941
Singer & Fried		108	-2.8	3.7	2.7	Nov Jun	25.9	4029
8½pc Cv Ln 09/14		213½	-.8	8½%	–	–	19.10	4845
Union		95	-2.1	3.0	–	Apr Aug	31.7	4383
Wintrust		270	-1.8	11.72	1.5	Mar Oct	28.8	4524

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		[illegible]	—	[illegible]	2.4	Oct Apr	[illegible]	—
Barlow	[illegible]	[illegible]	3.4	[illegible]	♦	Jan Jul	11.12	—
Gold Flds Prop R		[illegible]	-2.5	[illegible]	2.1	Feb Sep	[illegible]	—
NK Props		[illegible]	—	[illegible]	—	Feb Sep	[illegible]	—
SASOL	♥	[illegible]	8.3	[illegible]	—	Oct	[illegible]	—
SA Brews		[illegible]	-3	[illegible]	2.1	Jun Dec	27.11	—
Standard Bank	□	[illegible]	-1.7	[illegible]	3.1	Sep Mar	—	—
Tiger Oats		[illegible]	0.9	[illegible]	♦	Jan Aug	11.12	—
Tongaat-Hulett	†	[illegible]	2.6	[illegible]	2.7	Jan Jun	4.12	—

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; unless "v" is shown in the Notes field, indicating that the cover is calculated on a "net" basis. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✤ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♠ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
g Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend excludes a special payment.
t Indicated dividend: cover relates to previous dividend.
u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.
v P/e ratio & net cover calculated under new ACT guidelines.
z Dividend includes a special payment: Cover does not apply to special payment.
F Dividend based on prospectus or other official estimates for 1994-95.
G Assumed dividend after pending scrip and/ or rights issue.
H Dividend based on prospectus or other official estimates for 1995.
K Dividend based on prospectus or other official estimates for 1996
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1995-96.
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend total to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: St Chrtd 8 1/4pc Pf (Bk Rt), Natl Grid (Elty), Corbworth (Eng), Archaean, HMH Gold (Ex Ind), Baltic, Finsbury Tch (Inv Tst), Gearhouse, Wilmington (Med), UK Land (Prp), Cash Cnvrs (Ret Gn), Crn de Prt Fn, Lawrence, Manx & O's, Pet City, Polymasc, (AIM). Deletions: Taunton (Alc Bv), Ottomans (Bk Rt), BMSS (Bld Mt), Norweb (Elcty), Navan Ln Nts (Ex Ind), Schroder Med Wts (Inv Tst), China & East (Inv Co), Magnolia (Leis & H), Pentex (Oil Ex), Reglan Wts (Prp), Vistec (Sup Sv), California En (Am) .

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You can obtain the current annual/interim report of any company annotated with ♣ . Please quote the code FT2284. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

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Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.

To order, call 0121 200 4678.

Reports published by ShareFinder Ltd.

FT Cityline

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An international service is available for callers outside the UK, annual subscription £250 stg.

Call 0171 873 4378 for more information on FT City.

For readers phoning from outside UK, please dial +44 in place of the first 0.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda

Jupiter Tyndall (Bermuda) Ltd

PO Box HM1256, Hamilton, Bermuda 001 809 292 2780

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Sarasin Funds Mngmt (Guernsey) Ltd

PO Box 246, St Peter Port, Guernsey 01481 723021

Schroder Investment Mngmt (Guernsey) Ltd

PO Box 355, St Peter Port, Guernsey 01481 710851

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

GAM Fund Management Ltd - Contd.

Guinness Flight Select Funds Plc

Europa Hse, Harcourt St, Dublin 2 00 3531 407 7000

Henderson Crosthwaite Investment Co

32 St Mary at Hill, London, EC3P 3AJ 0800 561206

LGT Asset Management PLC

IRELAND (REGULATED)(**)

CFP Interest Rate Arbitrage Fund Plc

Calplus Fund

Capital Vision Fund Plc

Chemical Ireland Fund Administrators Ltd

Citi Investment Fund (Ireland) Ltd

Citizens Investment Trust Company

Daiwa Europe Fund Managers Ireland Ltd

Dragon Korea Fund Plc

Dynamic Pacific Portfolio Fund Plc

East Asia Hannon Ireland Ltd

ISLE OF MAN (SIB RECOGNISED)

Ashburton Global Funds Ltd (1200)

Bank of Ireland Asset Mngmt (IOM) Ltd

CMI Fund Managers (IoM)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

John Govett Management (Jersey) Ltd

INVESCO International Limited

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Dresdnerbank Asset Mngmt SA (u)

E.T. Investment Management Ltd

Eagle Star – Global Assets Fund (u)

Midland Intl Circuit Fund SICAV(u)

Nikko Capital Management

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

	Selling Price	Buying Price	Yield Gross	City-Line
Wells Fargo U.S. IT Fund				
Worldwide Limited				
NAV Dec 31	$79.10		–	49893
Xiphias International Investment Fd Ltd				
Zanett Lombardier Ltd				
NAV Dec 1	$124.73		–	56389
Zweig–DiMenna International Limited				
NAV Dec 21	613856		–	–

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
(**) Funds not SIB recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monetaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(W) - 0001 to 1100 hours
(X) - 1101 to 1400 hours
(Y) - 1401 to 1700 hours
(Z) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
h - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
■ - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
z - Previous day's price.
§§ - Guernsey gross.
◆ - Yield before Jersey tax.
† - Ex-subdivision. xd - Ex-dividend.
‡ - Only available to charitable bodies
◊ - Yield column shows annualised rates of NAV increase.

4 pm close January 12

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE COMPOSITE PRICES

4 pm close January 12

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close January 12

AMEX COMPOSITE PRICES

4 pm close January 12

FT GUIDE TO THE WEEK

MONDAY 15

European Parliament meets

The first session of the European Parliament in 1996 opens in Strasbourg (to Jan 19). Italy, which has taken over the rotating presidency of the European Union, will present MEPs its programme for the six months, during which the inter-governmental conference in Turin starts in March. The parliament will hear reports on the lobbying of MEPs and their financial interests, the EU's social policy programme and additives in foods.

UN mandate ends in Croatia

The UN mandate expires for 1,560 Belgian and Russian peacekeepers in eastern Slavonia, Croatia's last Serb-held region. The Security Council is to put forward a resolution for a deployment of up to 5,000 peacekeepers who will oversee the disarmament of the Serb forces and help the return of refugees to the area, which is now mainly Serb. Eastern Slavonia, the venue of some of the bloodiest battles in the 1991 Serbo-Croat fighting, will be under interim rule for up to two years before it returns to Croatian control.

Weapons deadline in Liberia

Liberia's 60,000 guerrillas are due to start handing over their weapons to ECOMOG, the Nigerian-led West African peacekeeping force trying to end the country's long-running civil war. However, renewed fighting between the apparently uncontrollable militias looks likely to sabotage both the timetable for disarmament – the latest of many – and elections scheduled for August.

Drug barons face extradition

Eleven associates of the opium warlord Khun Sa face extradition proceedings in Thailand in perhaps the biggest blow yet to the Golden Triangle's heroin traffickers. Khun Sa's associates – a financial officer, refining manager, sales representative and several chemists – are almost certain to be sent for trial in the US.

Keating visits Malaysia

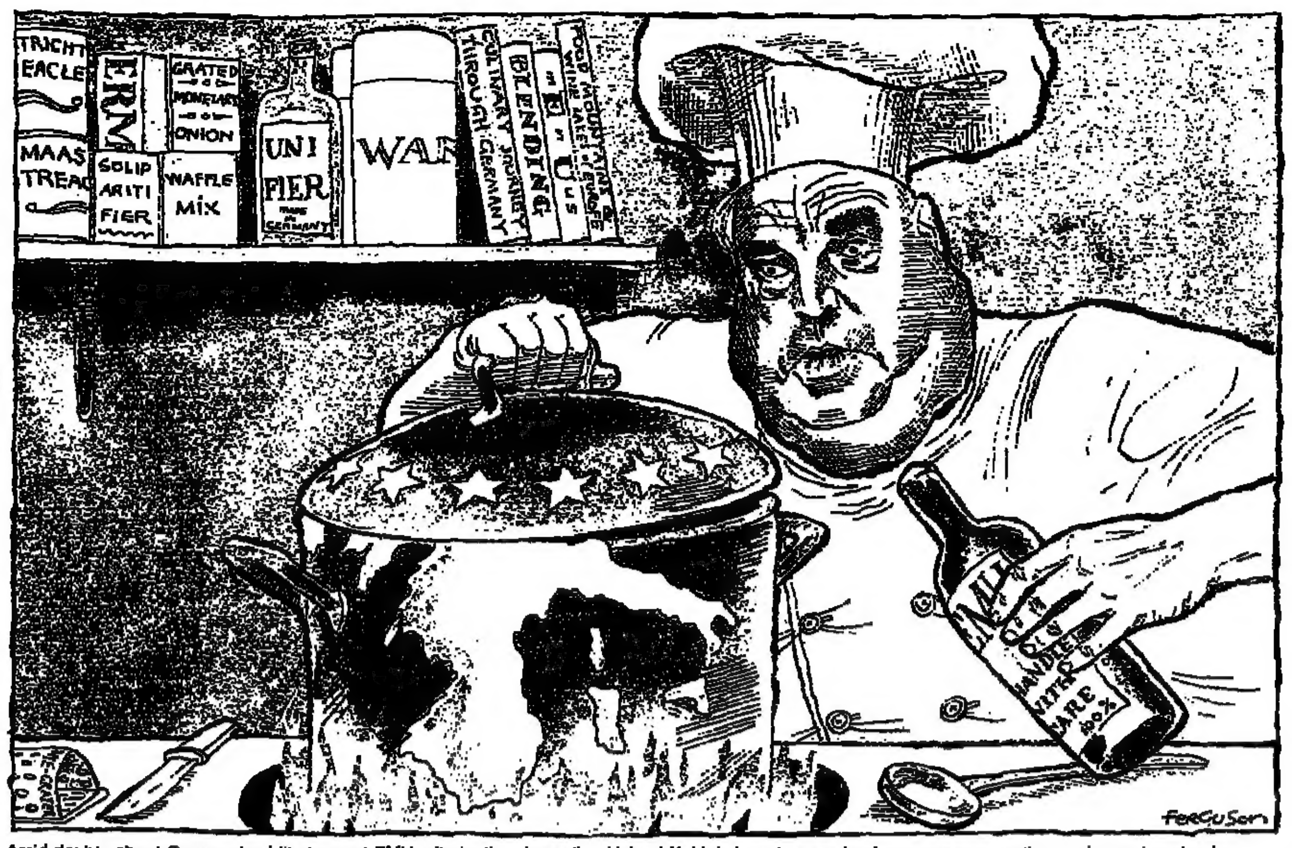
In the first official visit by an Australian prime minister to Malaysia since 1983, Paul Keating arrives in Kuala Lumpur. Mr Keating will talk with Mohamad Mahathir, his Malaysian counterpart. Two years ago, Mr Keating provoked a diplomatic row when he described Dr Mahathir as "recalcitrant".

Tennis

Australian Open, Melbourne (to Jan 28).

Holidays

Guam, Japan, Malawi, Puerto Rico, Sri Lanka, Virgin Islands.



Amid doubts about Germany's ability to meet EMU criteria, the chancellor, Helmut Kohl, is launching a plan for economic growth – and a cookery book.

TUESDAY 16

Albanian president in China

President Sali Berisha of Albania makes an official visit to China – the first by an Albanian leader since the countries quarrelled in 1978 over communist ideology and a decline in Chinese aid. The talks (to Jan 18) will focus on increasing trade and resuming supplies to Albania so that some Chinese-built factories there can resume production.

Japan's SDP declares leader

Japan's Social Democratic Party announces the result of a leadership election in which 110,000 members are eligible to vote. The front runner is the chairman, Tomiichi Murayama, who resigned as prime minister 10 days ago. Mr Murayama wants to form a centre-left party with the left-leaning New Harbinger Party, which, like the SDP, is a junior member of the ruling coalition. His opponent is Tadatoshi Akiba, a member of parliament who has promised to support Ryutaro Hashimoto, the new prime minister and leader of the Liberal Democratic Party – whose annual convention is on Jan 18.

Kohl launches pot boiler

A cookery book with a print run of 80,000 is launched by the German chancellor, Helmut Kohl, and his wife, Hannelore. The book, Culinary Journey Through Germany, glorifies the robust German cuisine. While Mrs Kohl has collected the recipes, the chancellor has written introductions about the history, culture and his impressions of the nine regions featured. Stuffed pig stomach, one of Mr Kohl's favourite dishes, is among the recipes. Proceeds from the book will go to the Hannelore Kohl Foundation, which helps finance research and treatment for brain-damaged children.

New faces in Duma

Russia's Duma, the lower house of parliament, sits for the first time since December's elections in what is expected to be a lively session. Russia's revamped Communist Party, which has won more than a third of the seats, promises to make life tough for the government. Some new faces, such as Alexander Lebed, the former army commander, will also be keen to make their mark along with several other parliamentary party leaders harbouring ambitions for the June presidential poll.

Rugby union

Wales v Italy in Cardiff.

FT Survey

Capital Sources – Year End Review.

WEDNESDAY 17

Berlusconi stands trial

Italy's former prime minister, Silvio Berlusconi, the media tycoon who leads the Forza Italia movement, goes on trial in Milan accused of corruption. Mr Berlusconi, his brother Paolo and nine others face charges over allegations that the former prime minister's Fininvest business empire paid bribes in return for lenient tax audits. The defendants claim the payments were extorted by unscrupulous tax police.

Ecuador-Peru border talks

Almost a year after their countries' border skirmishing left dozens dead on each side, Ecuadorean foreign minister Galo Leoro visits Lima for talks with his Peruvian counterpart, Francisco Tudela. The meetings come amid mutual accusations of an arms build-up. Ecuador is acquiring Israeli-built Kfir jet fighters while Peru is suspected of secretly rearming with weapons from Ukraine.

Memorial service in Kobe

Crown Prince Naruhito and Princess Masako of Japan will attend a memorial service for the more than 6,300 people who died because of the earthquake that devastated the city of Kobe a year ago.

Channel 5 franchise review

The judicial review of the Independent Television Commission's award of Britain's new Channel 5 television franchise opens in the High Court. Virgin Television argues it was unfair to award it to Channel 5 Broadcasting, a consortium linking MAI, Pearson – owners of the Financial Times – CLT of Luxembourg and Warburg Pincus of the US. The other unsuccessful bidders also hope to put their case against the decision.

THURSDAY 18

Ulster disarmament report

Northern Ireland awaits the release of a report on disarmament by George Mitchell, the former US senator, appointed by the London and Dublin governments to look into the issue of paramilitary weaponry. Mr Mitchell, who heads a three-man panel set up to resolve the difficulty of the IRA's refusal to start disarming ahead of all-party talks, has met both governments and all the parties in a bid to find a formula to unblock the way to substantive discussions on Ulster's constitutional future.

FT Survey

Eritrea.

FRIDAY 19

Aznar sniffs victory in Spain

Confident of gaining its first general election victory in six weeks' time, Spain's centre-right Popular Party opens its congress under the slogan "The Centre Wins". It is expected to focus as much on lambasting the Socialist government over scandals as on defining the party's own programme for economic growth, administrative reform and budgetary virtue. The party, led by José María Aznar, is desperate to rally momentum for an outright parliamentary majority.

UK bill to clock on to Europe

A bill to move Britain's clocks forward by one hour is launched by John Butterfill, the Conservative MP. The Daylight Extra Bill, which has cross-party support, enjoys the backing of business leaders, the police and safety organisations. Mr Butterfill believes clocks should be synchronised with central Europe, giving lighter evenings but darker mornings. The bill is likely to be sabotaged by Scottish MPs who do not want dawn delayed during winter.

CIS summit in Moscow

Leaders of the 12 former Soviet republics belonging to the Commonwealth of Independent States hold a summit in Moscow. The Kremlin's attitude may indicate if Boris Yeltsin, the Russian president, plans to adopt the Communist Party's policy of recreating the USSR.

Mastering Management

The FT's 20-part series continues in the UK edition with part 11. Non-UK readers can take out a subscription. Contact: PO Box 384, Sutton, Surrey, SM1 4XE, UK. Tel: +44 181 770 9772. Fax: +44 181 643 7330.

Holidays

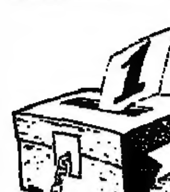
Ethiopia, Korea.

SATURDAY 20

G7 finance ministers meet

Exchange rates and aid for Bosnia are likely to be among the issues discussed by finance ministers and central bank governors from the Group of Seven leading industrialised nations in Paris. The meeting will help set the agenda for the more formal meeting of G7 heads of government in Lyon in June.

Palestinians go to the polls



Palestinians in the West Bank and Gaza Strip go to the polls for the first time in their history to elect an 88-member legislative authority, a de facto parliament. More than 1m Palestinians are registered to vote. With Islamic and secular opposition parties boycotting the election, in which most of the 676 candidates are independents, Yasser Arafat's Fatah faction is expected to romp home. He is also almost certain to be elected president of a Palestinian executive authority.

Pasok debates Papandreou

The 150-member central committee of Greece's governing Panhellenic Socialist Movement meets (to Jan 21) to resolve the impasse caused by the refusal to resign of the prime minister, Andreas Papandreou. Pasok parliamentary deputies – who can elect a new prime minister – and party organisations want Mr Papandreou out before February. However, his wife, Dimitra, and several cabinet ministers claim he is recovering. Mr Papandreou, 76, has been critically ill since November.

Holidays

Albania, Azerbaijan, Korea, Mali.

Rugby union

Five Nations championship begins with France v England in Paris and Ireland v Scotland in Dublin.

Motor racing

Monte Carlo Rally (to Jan 26).

SUNDAY 21

Piquant, after a fashion

The Paris *haute couture* houses kick off their season at the weekend with Versace showing off his latest ideas for those happy to pay £5,000 for a frock (to Jan 25). Excitement centres on the first collection of the British designer John Galliano for Givenchy, known for its old-style couture and recognisable elegance. That some of the world's most expensive clothes for the world's most elegant women should be produced by a bizzarrely clad, dishevelled Brit gives added piquancy to the season.

Ramadan

The Islamic month of fasting, Ramadan, begins although the precise timing depends on the crescent of the moon.

Holidays

Nepal.

Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: As the markets debate the possibility of a broader economic slowdown, they will have a feast of fresh data to watch this week.

In the UK, producer price data is expected to show a further easing of manufacturing price pressures in December.

Meanwhile, in Germany, retail sales data should provide added evidence of a weakening economic climate. Retail sales are likely to show a yearly fall in November, while the IFO business climate survey is expected to be gloomy.

German wholesale prices are also likely to illustrate the weakness of price pressures.

Tuesday: In Japan, wholesale prices data for December is expected to highlight the disinflationary climate in Japan.

Wednesday: Unemployment and wage data in the UK is likely to point to continued low wage costs in November.

Thursday: Retail price inflation is expected to fall back slightly in December, while retail sales show reasonable growth.

In France, the release of GDP data for the third quarter of 1995 is likely to provide further signs of a slower pace of economic growth.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Dec producer price indx input*	0.3%	-0.1%
Jan 15	UK	Dec producer price indx input**	5.9%	6.2%
	UK	Dec producer price indx output*	0.6%	0.2%
	UK	Dec producer price indx output**	4.1%	4.3%
	UK	Dec PPI ex-food, drink & tobacco**	4.4%	4.6%
Tues	Japan	Nov mach ord ex-power, ship'nts*	-3.3%	11.8%
Jan 16	Japan	Nov mach ord ex-power, ship'nts**	3.7%	4.6%
	Japan	Dec overall wholesale price indx*	0.0%	0.1%
	Japan	Dec overall wholesale price indx**	-0.3%	0.0%
	Japan	Dec domestic wholesale price indx**	-	-0.7%
	Italy	Oct EU trade balance	L1.3Tr	L1.6Tr
	Italy	Nov ex-EU trade balance	L2.6Tr	L3.6Tr
Wed	France	Oct current a/c†	FFr2.8bn	FFr2.9bn
Jan 17	UK	Dec unemployment	-10,000	-20,000
	UK	Dec average earnings	3.5%	3.25%
	UK	Dec unit wage costs 3-month**	4.0%	3.7%
	UK	Dec public sector borrowing req	£550m	£3.7bn
	Canada	Dec leading indicators*†	0.2%	0.3%
Thur	US	Jan Philadelphia Fed indx	-	11.3
Jan 18	US	M2 w/e Jan 8	-$3.3bn	$2.3bn
	France	3rd qtr gross domestic prod final***	0.2%	0.2%
	UK	Dec retail price indx*	0.4%	0.0%
	UK	Dec retail price indx**	3.0%	3.1%
	UK	Ditto ex-mortgage int payments**	2.8%	2.9%
	UK	Dec retail sales*	0.7%	0.6%
	UK	Dec retail sales**	1.5%	1.1%
	Italy	Nov producer price indx**	7.6%	7.9%
	Italy	Nov wholesale price indx**	10.7%	10.8%
	Canada	Nov manufacturing shipments*	0.2%	-1.6%
Fri	US	Jan Michigan sentiment prelim	-	91.0
Jan 19	Japan	Nov indust production (rev)†	-	1.3%
	Japan	Nov shipments (rev)†	-	2.1%
	Japan	Jan wh'sale price indx, 1st 10 days	-	0.0%
	Japan	Dec broad money supply (M2+CD)**	3.5%	3.5%
	Japan	Dec broad liquidity**	-	4.3%
	Italy	Nov industrial production**	6.0%	8.0%
During the week...				
	Japan	Dec trade balance (customs cleared)	$11.6bn	$13.0bn
	Germany	Nov retail sales*†	-	-4.0%
	Germany	Nov retail sales, real**	-2.0%	-5.0%
	Germany	Dec IFO business climate West	-	94.6
	Germany	Dec wh'sle price ind, pan-Germany*	0.2%	-0.1%
	Germany	Dec M3 from 4th qtr '94 base	2.2%	1.9% rev
	Germany	Dec private lndg 6-mth annualised	7.5%	7.8%
	Germany	Dec producer price indx, West*	0.2%	0.0%
	Germany	Dec producer price indx, West**	1.3%	1.2%
	Germany	Dec prod price indx, pan-Germany*	0.1%	0.0%
	Germany	Dec prod price indx, pan-Germany**	1.3%	1.3%
	Spain	Dec budget balance	-	-Pta 166bn

*month on month, **year on year, ***qtr on qtr, †seas/adj *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

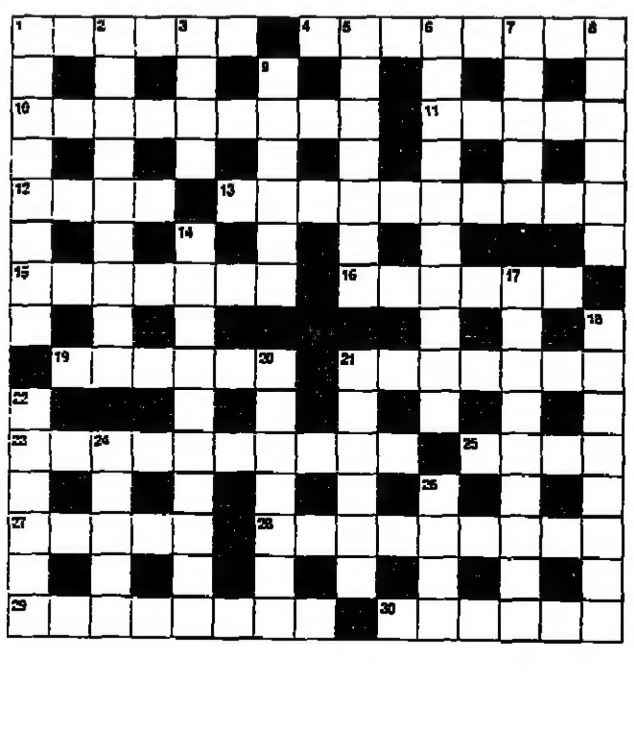
No.8,967 Set by VIXEN

ACROSS

1 Blow that oarsman! (6)
4 Continues to make nett profit (8)
10 Topping dormitory feast? (9)
11 Admitting few in accord will appear sheepish (5)
12 A joiner creating a row (4)
13 Speculate about the way a woman reads the newspaper (10)
15 Dealing with bank refund (7)
16 It goes badly for the self-centred individual (6)
19 Lacking spirit, want direction (6)
21 Dull club for evening out (3-4)
23 Notice a government official's conduct (10)
25 Some Asian nation's old coinage (4)
27 Work in the Channel Islands producing plants (5)
28 A game of no great importance (9)
29 Getting rid of unwanted moisture, takes a reading (8)
30 Making such a suit a man needs expertise (6)

DOWN

1 A dispiriting account hosts new lines (3-5)
2 One's set right concerning storage furniture (9)
3 Capital investment in something like pigs (4)
5 Scatter the result of a tirade (7)
6 Altercation can be enjoyable! (10)
7 A person who never really wanted to leave home (5)
8 Detective involved in hustle (6)
9 He's written stuff about the orient (6)
14 Gathering there's nothing way-out (10)
17 The cash received by an unknown killer (9)
18 Occupying foreigners (8)
20 A beastly food store? That depends! (7)
21 Do away with sound winter transport (6)
22 Rushed policemen can get offensive (6)
24 Giving a doctor tea – or coffee (5)
26 A viewer's complaint (4)



A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday January 25, marked Monday Crossword 8,967 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday January 29. Please allow 28 days for delivery of prizes.

Name..

Address...

....

Winners 8,956

G. Cooper, Street, Bathley, Notts
Mary Green, Rickmansworth, Herts
J. King, Cleadon, Sunderland
M.K. McGill, Haxey, Doncaster
P. Robinson, Liverpool
D. Talboys, Cheam, Surrey

Solution 8,956

G	E	T	O	U	T	O	F	T	H	E		W	A	Y
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JOTTER PAD